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Value Chain Development for Decent Work

A systems approach to
creating more and better jobs

Third edition January 2021

▶ Foreword

Perhaps now more than ever before, people and their governments around the world are focused on the importance of employment and decent work for all. In the midst of a global pandemic - the effects of which are likely to be felt for years to come - many millions are at risk of losing their livelihoods and unable to access opportunities to work themselves and their families out of, or away from, poverty.

Yet even before, there were significant challenges in the world of work. While the number of workers living in extreme poverty has declined dramatically over the past quarter of a century, only last year the ILO issued a warning that achievements in reducing unemployment around the world were not being matched by improvements in the quality of work. Progress towards the Sustainable Development Goal 8 on decent work and economic growth has been slower than expected, making SDG achievement unrealistic for many countries. There is both a need and an opportunity for global leaders to make decent jobs a top priority.

Value chains are an integral part of today's modern, globalised economies. They increasingly shape how products are designed, developed and disposed of - and determine who benefits from economic value-creation. The ILO's decent work agenda is central to value chain development; just as stronger and more inclusive value chains can contribute to the vision of decent work for all.

The ILO strongly believes that, when well done, value chain development can therefore bring about not only economic but importantly social and environmental upgrading.

The ILO has been a pioneer of using a systems approach for value chain development, with the aim of supporting the creation of more and better jobs. A systems approach is critical given the scale of global challenges. Too many development interventions remain at the pilot phase and do not lead to widespread change; or are too expensive to deliver and require vast amounts of funding to roll out. By being catalytic - trying to achieve more impact with less resources - a systems approach can boost local ownership and sustainability of outcomes.

This third edition of *Value Chain Development for Decent Work* updates our flagship publication to reflect the latest thinking and practical examples. We are grateful to the government of Switzerland, who through their State Secretariat for Economic Affairs have provided support to develop this guide, and for their ongoing support to field programmes in the ILO's Enterprise Development project portfolio, which have provided the bulk of the experiences and knowledge on which the guide is based.

Vic Van Vuuren, Director, ENTERPRISES

Geneva, January 2021



Acknowledgements

This guide was written by Matt Ripley, together with a team of contributing authors from ILO offices and technical cooperation projects, including Jon Bird (ILO Myanmar), Silvia Possenti (ILO Regional Office Côte d'Ivoire), Mpulu Makayi (ILO Zambia), Josphat Mwahunga (ILO Afghanistan) and José Manuel Medina Checa (International Training Centre, Turin).

The guide draws heavily on the second edition of the Value Chain Development guide (2015) written by Roel Hakemulder, which in turn built on the first edition (2009) written by Matthias Herr and Taperu Muzira.

The experiences contained in this guide are based on the work of the Inclusive Markets and Value Chains team in the ILO's Small and Medium Enterprises Unit, as

well as the wider Enterprises Department. Substantive inputs were provided by colleagues working on Women's Entrepreneurship Development and Green Jobs. Expertise and practical examples are based on the ILO Lab project, which over the last six years has generated knowledge on how to use a market systems approach for decent work outcomes.¹ The Lab team includes Merten Sievers, Steve Hartrich, Gun Eriksson Skoog, Aatif Somji, Elisa Mandelli, Ines Bentchikou and Isaac Cowan Gore all of whom were involved in contributing to this guide. Particular thanks are also due to the Gatsby Foundation and Mercy Corps UK for reviewing and commenting on drafts.

This guide has been published with the financial support of the Swiss State Secretariat for Economic Affairs (SECO).



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¹ www.ilo.org/thelab

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Prologue: A Tale of Two Stories

The following real-life stories illustrate how a systems approach differs from 'traditional' international development programming.

All work and no play (pump)?

The idea was brilliant. A project in Zambia called 'PlayPump' turned a standard water pump into a merry-go-round.² As children play, water is pumped into a storage tank and is then available on demand. Safe drinking water is provided, while reducing the burden of having to manually pump. The PlayPump is not only fun, it is self-sustaining - billboards on the side provide advertising revenue. It even creates local employment, with the storage tanks and message board produced locally. PlayPump was rolled out with support from a raft of major aid agencies, including the World Bank.

Except, it didn't work. In order to meet the recommended minimum daily water requirement of 15 litres per person, children would have to be 'playing' non-stop every single hour of the day. With no children around (or prepared to put in 24/7 shifts!) the women from the village operated the merry-go-round manually, working hard to pump water that would have surfaced more easily with a traditional hand pump. The villagers also had no say over the type of advertising displayed, and no idea what exactly happened to the advertising revenues. Moreover, many had trouble with the pumps' maintenance. Villagers in Zambia had to call a maintenance centre in South Africa, and the installation parts produced there would take months to arrive.

So what went wrong? It wasn't simply a matter of poor planning. PlayPump was the archetypal example of a tool-driven approach to development assistance. A 'pre-cooked' solution, dreamed up many miles away in

donor capital cities, foisted on a local population. Worst of all, it was addressing the wrong problem. PlayPump can only work when there are large supplies of high-quality groundwater, close to the surface: which is rare in some parts of Africa. The root problem was water scarcity - not having enough supply to meet demand. In this case, a PlayPump would not be helpful, and many pumps ran dry.

What does this story tell us?

- 1 Context matters:** Don't push 'one size fits all' solutions. First understand what specific challenges target groups are facing and work to address these. Tools (like a standardised training course) can play a role, but the process of designing and implementing interventions should be led by an analysis of needs - and not driven by the tools themselves. What might be a suitable fix in one situation may not be in another.
- 2 Local ownership is key:** Mobilise local actors and communities to explore what could work in their environment - and base innovations around both the incentive and capacity of local actors to drive change.
- 3 Address root causes:** Lasting change comes from addressing the root causes of an issue. If we just focus on treating the symptoms (make pumping more efficient!), we risk missing the real underlying causes (there's no water to pump!).

"The failure of PlayPump points to a huge problem [in aid] simply put, there is no panacea... Problems are very complex and come in a multitude of flavors. In some very specific situations, PlayPump may be the right type of solution. In most situations though, it is imperative to first really understand the problem and to then design appropriate, tailored solutions"

Columbia University

² This story is based on <https://casefoundation.org/blog/painful-acknowledgment-coming-short/>; <https://blogs.ei.columbia.edu/2010/07/01/the-playpump-what-went-wrong/> and <http://unit-edexplanations.org/english/2012/03/22/the-story-of-playpumps-merry-go-rounds-water-and-failures-in-development-aid/>

Why do Abdullah's sheep keep getting sick?

Abdullah is concerned. Like almost all farmers in Samangan province in northern Afghanistan, he supports his family through income earned from rearing goats and sheep. But his livestock – and livelihood – are at risk due to high animal mortality and morbidity rates.³ Abdullah has 200 sheep, but last year lost at least 30 animals. Across the province, it is estimated that 12% of the herd die every year, with countless more falling sick and impacting on productivity.

The ILO Road to Jobs (R2J) project held consultations with local stakeholders in the livestock sector to find out why. Farmers were convinced: the lack of fodder, drinking water and inadequate shelter were to blame. But R2J triangulated the views of all local stakeholders to understand the real, underlying reasons for the problem. As the project began to speak to more people – not just farmers, but also service providers and businesses – and conduct a more detailed analysis, a different picture emerged. The main cause was a lack of veterinary services: the animals were dying of disease, not malnutrition.

Rather than just delivering services or directly training farmers themselves – services that would stop when the project ended – R2J asked why the current system for veterinary services was not working. R2J partnered with the Afghan Veterinary Association (AVA) to conduct a needs assessment among para-vets. It was agreed that para-vets needed improved knowledge to diagnose livestock diseases and administer the right medicines in order to reduce the mortality of animals. The project supported the AVA in designing a scalable training programme to equip para-vets with the right skills to address the problem of poor access to veterinary services.

Habib Rahman, or 'the Doctor' as he is known to his clients, attended the para-vets training course provided by the AVA. Habib owns a drugstore, where he and his two assistants suggest suitable medicines to farmers and provide advice on administration and dosage. Equipped with his new veterinary knowledge, Habib says that the *"improvement in diagnosis and prescription from within the drug-store and by going out to physically look at the animals has increased farmers' confidence"* in his services. *"More farmers are coming every day. Before the training it was never this busy"*, he said. He estimates the increase in volume of work has translated into a 5% net income increase in the past year.

³ This story is based on <https://fragilestates.itcilo.org/2018/08/22/paravets-afghan-veterinary-association/>. Names have been changed to provide anonymity.

Habib believes that linkages with other para-vets is important to enhance his drug-store business. Another important linkage, says Habib, will be to find ways to link *“directly with vet medicine manufacturers in India, Pakistan and Iran.”* According to Habib, this will significantly bring down the prices of medicines and help improve the situation for both farmers and the para-vets themselves. Currently his drug store buys medicines from middlemen.

Farmers have acknowledged an improvement in service quality from para-vets in the past year. Abdullah is much happier now. “The doctor is giving advice on how to keep animals healthy in both winter and summer in order to reduce losses”, he says. “My animal losses have been reduced from 30 to 15 animals in the past year. This means more income for me”.

What does this story tell us?

1 Go beyond core value chain performance... A chain of actors – from businesses, associations and government - are involved in bringing a product or service to market, and the performance of each of these actors is affected by the actions of others. Even if the ultimate aim of development projects

is to improve the performance of one group of actors - such as poor farmers – it does not mean they have to work with them directly in order to help them. In fact, for sustainable change at scale, projects need to improve the performance of the businesses at other points in the chain.

2 ...To improve the wider system: To understand the causes of low performance, projects must look beyond the chain of transactions. Is the transport infrastructure good enough to ensure products can be transported to market at a reasonable cost? Are there sufficient laws and enforcement to protect the property of businesses? Are the different businesses able to access the inputs they need to maximise their productivity? These factors fall into two broad categories – ‘rules’ and ‘supporting functions’. They make up the ‘system’ surrounding the core value chain. These concepts will be explained fully during the course of this guide. But the key point to note at this stage is improving outcomes for target groups – be they SMEs, farmers or youth – involves understanding the whole system which affects their performance – and then intervening to tackle the underlying, system-level constraints.

Introduction: Using the guide

This Guide provides an overview of how to take a systems approach to value chain development with the objective of creating more and better jobs. Although a number of other manuals on value chain development (VCD) already exist, the aim of this Guide is to strengthen the focus on decent work.

It is designed to be used by those involved in project development, implementation and evaluation. It can also be a useful resource for policy and decision-makers, as well as any implementing partners.

Ultimately, the aim of this Guide is to provide a set of principles, steps and tools which can be used and adapted by value chain projects in their particular context. It includes real-life examples and mini case studies. Each section is underpinned by theoretical concepts, but the focus is on their practical application.

Structure of the guide

The Guide has four chapters. The first chapter provides a summary of value chains in the context of economic and social upgrading, as well as environmental sustainability; and of how a systems lens can improve prospects for large-scale and long-lasting decent work outcomes that also contribute to addressing gender gaps in the labour market and the business environment.

The remaining chapters follow the value chain development cycle: Strategy (sector selection), Analysis (research and analysis) and Action (implementation and results measurement).

Each chapter presents step-by-step guidance. These are based on the experiences of value chain development initiatives. They are not meant to be prescriptive. Projects should tailor them to their own requirements and circumstances.

Throughout the text are symbols that provide users with a quick reference on:



Key tips and tricks, based on past experiences



Real life examples and case studies to illustrate concepts and tools



Suggestions for **further reading**



Key skills and competencies for value chain development⁴

Key considerations related to gender and the environment are also highlighted in each chapter. The aim is not to cover these issues comprehensively but rather to point to where and how they should be considered at key steps in the VCD process.⁵

⁴ Based on the BEAM Exchange framework, which is a catalogue of the full range of knowledge, skills and aptitudes found in high-performing teams that use the market systems approach.

⁵ For more on these topics, see "Market Systems Development and the Environment: A Strategic and Operational Guidance Note"; Value Chain Development for Green Jobs in Asia (Operational and Methodological Guide) and Making the strongest links: A practical guide to mainstreaming gender analysis in value chain development.

1 Understanding Value Chains as Systems

Summary

This chapter explains the key concepts that underpin the Guide. It starts by exploring what value chains are, as well as the contribution that value chain development can make to decent work goals. It then introduces the main rationale and features of a systems approach to value chain development.

Learning objectives:

- Understand how value chain development can support more and better job creation
- Identify the aims and principles of a systems approach to decent work

1.1 Decent work and value chain development

Decent Work is '*productive work for women and men in conditions of freedom, equity, security and human dignity*'.⁶ It refers to opportunities for work that are productive and deliver a fair income; provide security in the workplace and social protection for workers and their families; offer better prospects for personal development and encourage social integration; give people the freedom to express their concerns, to organize and to participate in decisions that affect their lives; and guarantee equal opportunities and equal treatment for all.

The performance of enterprises of all sizes, and hence their ability to create decent jobs and incomes for women and men, is inextricably linked to the performance of the value chain they operate in.

A value chain "describes the full range of activities that

are required to bring a product or service from conception, through the intermediary phases of production and delivery to final consumers, and final disposal after use".⁷ This includes activities such as design, production, marketing, distribution and support services up to the final consumer.

'Value Chain Development' (VCD), in turn, refers to an approach which takes a product, service or commodity as the basis for analysis.⁸ Understanding value chains helps development practitioners identify those chains which are able to generate growth, job creation and poverty reduction. It also aims to identify constraints to and opportunities for increasing value chain performance, so that interventions can be designed and implemented to address constraints and improve outcomes.

To date, VCD has been used to improve outcomes across all pillars of the Decent Work Agenda (Box 1), including areas such as gender equality, productivity, skills and employability, youth employment, working conditions and health and safety.

⁷ Kaplinsky, R. and Morris, M. 2012. A handbook for value chain research.

⁸ <https://www.enterprise-development.org/implementing-psd/value-chain-development/#:~:text=In%20the%20Private%20Sector%20Development,the%20product%20is%20agriculture-based>

⁶ https://www.ilo.org/europe/projects/WCMS_377422/lang--en/index.htm

In particular, the ILO's approach to value chain development can contribute to decent work by:

- ▶ Creating more equal opportunities for productive work for women and men
- ▶ Increasing incomes
- ▶ Providing greater income security
- ▶ Enhancing social integration (e.g. through social dialogue and cooperatives)
- ▶ Providing better prospects for professional development (e.g. learning new skills)
- ▶ Improving occupational safety and health (OSH)
- ▶ Providing 'pull' incentives in the form of new livelihood opportunities to complement 'push' interventions aimed at ending forms of labour that should be abolished, such as child, forced and bonded labour.

▶ Box 1: The Decent Work Agenda

There are four pillars of ILO's Decent Work Agenda, with gender equality as a cross-cutting theme:

1 Job Creation: Generating opportunities for investment, entrepreneurship, skills development, job creation, and sustainable livelihoods

2 Rights at Work: Recognizing and respecting the rights of all workers, particularly disadvantaged or poor workers who need representation and laws that work for their interests.

3 Social Protection: Promoting both inclusion and productivity by ensuring that women and men enjoy working conditions that are safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income, and permit access to adequate health care.

4 Social Dialogue: Involving strong and independent workers' and employers' organizations is central to increasing productivity, avoiding disputes at work, and building cohesive societies.

1.2 Changing patterns of global production and trade

If enterprises of various sizes – ranging from micro, small and medium enterprises to multinational companies – are increasingly interconnected and interdependent, so are the jobs and incomes they generate.

Value chains are an expression of an unprecedented fragmentation of production processes in a connected global economy.⁹ The activities constituting a value chain are often divided among several businesses, though they can sometimes be contained within a single, large business. These activities can take place within a single country or be spread across multiple countries. Each link in the chain adds value - and margins - to the product or service being delivered to the consumer. Hence the name value chain.

Value chains can exist at the local, national, regional or global level – but all are to varying degrees influenced by so-called mega trends in the world economy. For developing economies, this may provide both opportunities and threats. Some trends such as digitalisation will provide an opportunity for African economies to ‘leapfrog’ straight to more transformative technologies – in the same way as many consumers in Africa leapt from having no phones to having mobile

phones, thereby avoiding a landline. At the same time, other exogenous factors such as climate shocks and geo-political shocks - to which many countries are particularly vulnerable - may pose a threat to the resilience of value chains.

In the medium-to-long term, evolving mega trends such as the Future of Work will affect almost all enterprises and production networks. In the shorter-term, important patterns of global production, trade and distribution have been identified as:¹⁰

- ▶ More intra-regional trade
- ▶ Supply chain fragmentation, especially resulting from the effects of the COVID-19 pandemic
- ▶ ‘Servicification’ of manufacturing
- ▶ More knowledge intensity
- ▶ Less labour arbitrage (shifting production to locations solely based on the cost of doing business, such as low wages or weak regulations)
- ▶ Growing trade in services
- ▶ Declining trade intensity in goods
- ▶ Increasing risk of environmental shocks and stresses

⁹ “Economic upgrading in global value chains: concepts and measures”. Marília Bassetti Marcato and CT Baltar, 2020.

¹⁰ McKinsey Global Institute, January 2019. Globalization in Transition: The Future of Trade and Value Chains and <https://www.brookings.edu/blog/africa-in-focus/2020/04/15/trade-in-uncertain-times-prioritizing-regional-over-global-value-chains-to-accelerate-economic-development-in-east-africa/>

► Box 2: Value chains, supply chains and sectors

Value chains describe how value is created from the conception of a product or service to its final consumption, including the different stages of input supply, design, production, distribution and retail. The term value chain is more often used with a developmental connotation, addressing issues of value capture and distribution across the chain.

The term “supply chain” refers to the organization of activities required to produce goods or services and bring them to consumers through inputs and various phases of development, production and delivery. Global and regional supply chains involve cross-border organization.¹¹ A supply chain perspective usually considers the process of bringing products and services to markets from the point of view of a main buyer or lead firm. The terms supply chain and value chain are often used interchangeably.

Value chain development is targeted at specific sectors. In classic economic theory, there are three sectors: Primary (raw materials), secondary (manufacturing) and tertiary (services). In practice, though, the word sector is often used to refer to broad groups

of the economy in which businesses share the same or related services, for example agricultural or financial services. In turn, these are made up of several sub-sectors.

To avoid getting bogged down in terminology, the word ‘sector’ is used flexibly throughout this Guide. It is up to each project to define where and how tightly they draw the boundaries. Each sector may therefore be made up of different value chains. For instance:

- Livestock sector: value chains for different species (e.g. sheep, cows, poultry), and for different products (e.g. fresh meat, processed meat, dairy, eggs)
- Light manufacturing: different types of products, such as apparel and electronics, and within these, more specific value chains such as ready-made garments, ICT or household equipment
- Tourism sector: includes a wide range of value chains, from mass beach or city tourism to adventure or eco-tourism

¹¹ <https://libguides.ilo.org/global-supply-chains-en>

1.3 Innovation, upgrading and productivity: drivers of value chain development

Value chains are a useful explanatory approach for understanding how firms and countries are engaged in the process of value creation and distribution. However, more than an analytical tool, value chains also offer a practical framework to help stimulate growth and improve the competitiveness of sectors.

Value chain development (VCD) looks at market dynamics and relationships between different actors in the chain with the objective of strengthening the whole system: Enterprises, business networks, supporting services and rules and regulations.

VCD is traditionally associated with the pursuit of upgrading strategies, which range from increased efficiency and output, to access to new market channels and industry knowledge. In order to contribute to – and benefit from – these new market opportunities, both firm- and industry-level innovations are required

to add value to products or services and to improve productivity.

Upgrading strategies are typically characterized as:¹²

Functional

Increasing the range of functions or changing the mix of activities to higher-value tasks; for example, moving beyond direct production-related activities to logistics and distribution, product development, design, and branding

Supply chain

Establishing backward linkages within the supply chain closer to raw material source

Channel

Diversifying to new buyers or new geographic or product markets

Product

Shifting to more sophisticated products with higher unit prices

Process

Reorganizing the production system or introducing new technologies to gain efficiency

¹² See <https://www.marketlinks.org/good-practice-center/value-chain-wiki/types-upgrading>

1.4 Inclusive value chain development

From the perspective of international development agencies, VCD is concerned with ensuring greater benefits for poor and excluded groups from economic growth and development. These outcomes do not result automatically from more competitive value chains.

Value chain analysis and the design and implementation of interventions must take proactive steps to address constraints to more *inclusive* growth i.e. growth that is distributed fairly across society and creates opportunities for all.¹³ If these constraints are not proactively addressed, the outcomes for target groups could be negative rather than positive. For example, conditions may become more exploitative for workers. Value chain development aims for ‘win-win’ outcomes: improved enterprise performance and growth *at the same time as* positive impacts for the poor and vulnerable groups. This is critical, as without better enterprise performance and growth, jobs will not be sustained.

Parallel to economic upgrading, the concept of social upgrading is important. It has been described as the

process of “improvement in the rights and entitlements of workers (and other disadvantaged groups) as social actors by enhancing the quality of their employment”.¹⁴ From a value chain perspective, social upgrading can be understood as the portion of the gains from economic upgrading captured by the target groups in a given firm or sector.

Gender relations are a primary component of both social and economic upgrading, and shape how the value chain functions at each level. This includes factors ranging from the types of jobs that are available to men and women, to differences in remuneration.

Finally, environmental upgrading occurs when companies improve their environmental performance, such as through reducing consumption of energy and water, and eliminating waste in production processes. This is an important determinant of the sustainability and resilience of value chains, because both climate and other environmental risks can undermine livelihoods and sector growth, and because unsustainable enterprise practices that are harmful for the environment can threaten key productive assets, such as land and water, as well broader social well-being. This means that environmental factors have to be taken into account in any value chain development initiative.

¹³ The OECD defines inclusive growth as economic growth that is distributed fairly across society and creates opportunities for all.

¹⁴ ‘Economic and social upgrading in global production networks: Developing a framework for analysis’ by Barrientos, Gereffi and Rossi.

1.5 Thinking in systems

The story of Abdullah, the sheep herder, in the prologue shows that a chain of actors are involved in bringing a product to market – and that the performance of each of them is affected by the actions of others. This ‘system’ – the web of actions and interactions – can be hard to understand and unpack.

One popular approach to help navigate the inherent complexity of value chains is known as market systems development (MSD). MSD aims to address the root cause reasons why a particular constraint exists – and not just to treat its *symptoms*. Put another way, it means looking beyond the immediately visible tip of the iceberg to understand what lies beneath: the issues that create the problem in the first place (see box 4). Systemic change – the goal of the approach – means ‘shifting the conditions that are holding the problem in place’.¹⁵

Market systems development does not prescribe a set of ‘blueprint’ interventions or a menu of policy prescriptions. Rather it is an *approach*: a suite of principles and practices to help understand systems of exchange, and to guide practical interventions that can lead to positive social, economic and environmental outcomes. The three central features are:¹⁶

- ▶ *Analysis-led*. Undertaking a thorough analysis of how and why systems function (see box 3) – identifying the changes that appear key to reducing poverty and inequality;
- ▶ *Intervention through facilitation*. Catalysing desired behaviour changes that build on genuine incentives and capabilities of local market actors to succeed in the long-term. Development projects play a facilitation role (allowing others to lead), rather than ‘delivering’ change themselves.
- ▶ *Embracing adaptive management*. Outcomes are neither straightforward nor predictable, so finding viable pathways to systemic change requires time, curiosity and experimentation. This means deploying flexible and more iterative ‘trial and error’ implementation, alongside a commitment to ongoing measurement and learning.

The ultimate concern is to work towards the:

- ▶ *Sustainability of change*: Such that benefits continue beyond the period of intervention
- ▶ *Scale of impact*: Change leads to improvements in the livelihoods or well-being of large numbers of women and men beyond the initial intervention locations

The PlayPump experience described in the Prologue shows the pitfalls of not taking a market systems approach. In this sense, the approach is aligned to a growing movement that seeks to use aid resources more strategically and catalytically to ‘do development differently’.¹⁷ Truly successful projects, it is thought, reflect these common principles:

- ▶ A focus on solving local problems that are debated, defined and refined by local communities in an ongoing process.
- ▶ Working through local conveners who mobilise all those with a stake in progress (in both formal and informal coalitions and teams) to tackle common problems and introduce relevant change.
- ▶ Blending design and implementation through rapid cycles of planning, action, reflection and revision (drawing on local knowledge, feedback and energy) to foster learning from both success and failure.
- ▶ Managing risks by making multiple ‘small bets’: pursuing activities with promise and dropping others.

Market systems development provides a framework to help value chain practitioners to ‘think locally and act systemically’. It recognises complexity but does not get lost in it. Ultimately, the goal is to find practical ways to support local actors to deliver improved decent work outcomes, both sustainably and at scale. This guide therefore refers to a systems approach, which is shorthand for using a ‘market systems approach to create more and better jobs through value chain development’. All ILO value chain development projects use a systems approach, so it is used in this guide as interchangeable with VCD.

¹⁵ FSG, ‘The Water of Systems Change’

¹⁶ As such, the approach shares many similarities to other initiatives that look to eschew simple or predetermined recipes to solve the complex challenges of poverty reduction and sustainable development. For example: Doing Development Differently, Problem-Driven Iterative Adaptation, Thinking and Working Politically.

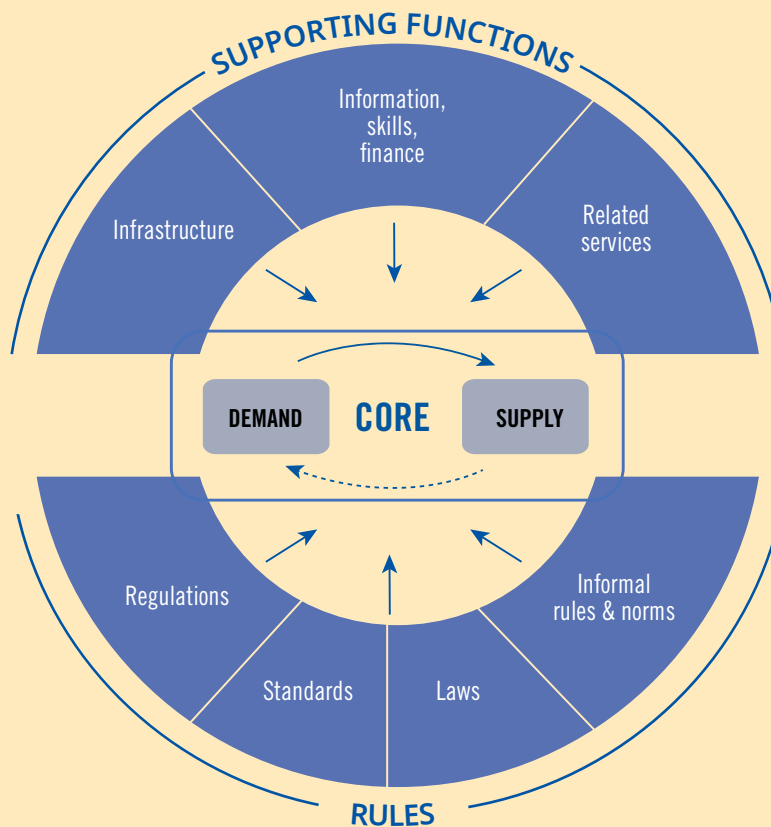
¹⁷ In 2014, a group of academics, policy makers and development aid practitioners gathered to capture a set of ideas about what really successful development interventions look like. Their Manifesto on Doing Development Differently recognised that many development initiatives fail to address the complexities of genuine development progress, promoting irrelevant interventions that have little impact in practice.

► Box 3: Defining a 'market system'

Simply put, a market system is all the actors and factors that interact to shape the outcomes of an exchange. Imagine a farmer selling vegetables to a trader in a local market. The quality and quantity of that exchange is determined by the farmer's knowledge of modern farming methods - obtained from extension agents (so-called 'market actors'); as well as access to finance from banks, and productivity-enhancing technologies available in local retail

stores (collectively known as 'supporting functions'). A similar web of interactions could be applied to workers 'selling' their labour in a factory; for example, skills acquired from training institutions, or regulations governing overtime.

The market system is often depicted visually in the form of a 'doughnut': showing how these various dimensions shape a core 'supply and demand' exchange:



► Box 4: From symptoms to causes: A worked example

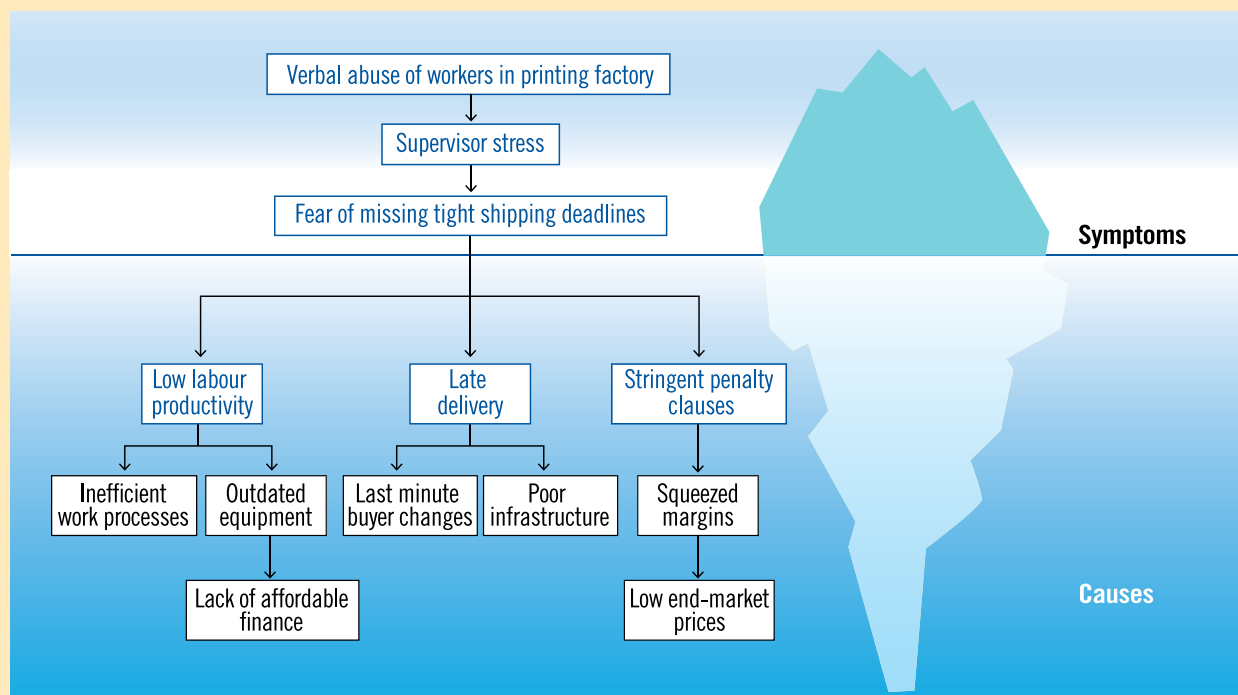
A popular analogy for thinking in systems is the 'iceberg'. Rather than reacting to individual problems that arise, a systemic approach will look for patterns over time and seek to understand the rules and relationships that create these patterns. So instead of reacting and trying to solve what we can 'see' – events at the visible tip of the iceberg – the aim is to understand and address what lies hidden under the water: structural issues such as policies, power dynamics and underlying behavioural models.

The example below applies the iceberg analogy to the *decent work deficit* of workers suffering from verbal abuse in printing factories.

Faced with this problem, a 'solution' to the immediate problem might be to develop a training course to sensitise and educate enterprises on the importance of ending violence and harassment in the workplace. This is the approach by many 'traditional' interventions.

However, this will not lead to large-scale or lasting change. Training may help 'build capacities' – and put in place fundamental building blocks of knowledge – but a) there are hundreds of printing factories, training cannot be delivered to them all; and b) the real issue is that factory managers have little incentive to treat workers well due to structural issues such as unhealthy competition.

What would a systems intervention do differently? As shown in the iceberg analysis below, the real constraints to better working conditions may be related to problems that arise well beyond the four walls of the factory. A systems approach would not seek to 'address everything' (and will have little influence over some issues like prices!), but may explore multiple interventions such as dialogue between buyers and suppliers on the impact of penalty clauses, strengthening social dialogue and the role of unions, introducing productivity-enhancing innovations or innovate financing options that tie access to capital to employee satisfaction.



1.6 The Value Chain Development Cycle

The VCD for decent work projects¹⁸ involve a three-phase process:

- ▶ **Strategy.** Select sectors and the decent work focus, based on criteria of relevance, feasibility and opportunity.
- ▶ **Analysis.** Understand which aspects of the system are not working, moving from visible 'symptoms' to the 'causes' which can often be found in underlying behaviours, attitudes and enabling conditions.
- ▶ **Action.** Facilitate change by building both the incentive and capacity of partners; which involves a trial-and-error process to test new ways of working.

These phases can be seen as the VCD project cycle. Figure 1 shows that there are 5 distinct steps within each phase, which are explained in detail in the remainder of this Guide. The practice of adaptive management cuts across the whole cycle as fast, iterative learning, and the ability to adapt to changing circumstances is critical to the approach.

Figure 1. The phases and steps of the VCD cycle



Further reading

Guidance:

- [The Operational Guide for the Making Markets Work for the Poor \(M4P\) Approach, 2nd edition](#)
- [MarketLinks: Overview of the Value Chain Approach](#)
- [Value Chain Development Explained, a video](#)
- [A Systemic Approach to Creating More and Better Jobs](#)

¹⁸ Project is used in this guide as a catch-all term to describe any VCD programme or initiative.

2

Strategy: Select sectors and decent work objectives

Summary

This chapter covers critical strategic choices that projects need to make concerning their target group, decent work and sector focus. It outlines the key tools, processes and considerations to enable projects to be best positioned to contribute to the creation of more and better jobs.

Learning objectives:

- Understand how to carry out a structured sector selection process
- Gain awareness of the major strategic decisions to be made when selecting which target groups and decent work challenges to focus on

Key steps:

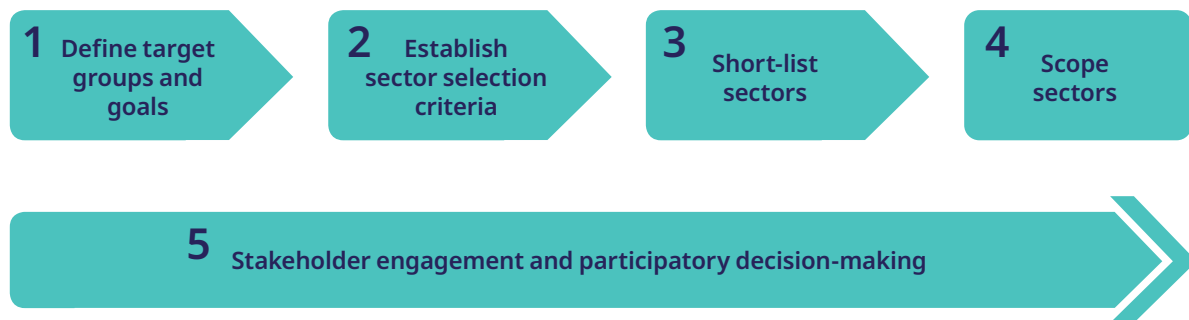
- Define target groups and the over-arching decent work objective
- Develop criteria to select sectors based on relevance, feasibility and opportunity
- Short-list sectors using available data
- Scope sectors to gather more information, where required
- Make final sector selection choices together with important stakeholders

The first part of the VCD project cycle involves selecting which target groups and sectors to focus on. This means deciding which decent work challenges to address – taking into account the project's time, budget and contextual constraints. Other important decisions, such as how the project will address environmental sustainability and gender issues, will also need to be made. It also involves managing and aligning expectations among stakeholders, from funders to constituents, about what the project will do and what it can achieve. Sector selection is key to avoid the risk that projects spend time and resources focusing on 'low potential' sectors where there is little likelihood of success.

Sometimes, the strategic focus – including the sector (e.g. agriculture), target group (e.g. youth) and decent work challenge (e.g. unemployment) – will have already been decided by the donor or ILO constituents. If a sector has not been selected, value chain development uses a set of transparent sector selection criteria to allow for a clear comparison between sectors. Data is gathered – including through commissioning Rapid Market Assessments (see Step 4) and a consultative process to finalise the decision. Along the way, this may mean making difficult decisions about prioritisation and focus, given that resources available to projects are finite. The essence of strategy, after all, is deciding 'what not to do'.¹⁹

¹⁹ In the words of Michael Porter

2.1 Strategy-setting process



Step 1: Define target groups and goals

A value chain initiative needs to be clear about its goal: *What does it want to achieve, and for whom?* This is usually done before a project is funded through consultations between funders and national stakeholders, which for the ILO means its tripartite constituents: governments, employers' and workers' organisations.

The target group can be defined with reference to a particular socio-economic group (e.g. people living in poverty); demographic group (e.g. refugees), or by geography (see Box 5).

The project goal, in turn, responds to a broad employment challenge facing the target group. In general, there are four challenges to consider:

- ▶ Unemployment – there are many economically active people looking for jobs, but not enough employment opportunities.
- ▶ Under-employment – people are working, but the jobs they do are inadequate, only partially using their skills and requiring less hours than they are willing and able to commit.
- ▶ Poor working conditions – problems related to a range of issues such as excessive working hours, as well as the physical conditions and mental demands that exist in the workplace.
- ▶ Lack of productive employment - employment yielding insufficient returns to labour to permit the worker and her/his dependents a level of consumption above the poverty line (the phenomenon of the 'working poor').

There is increasing recognition that not only the *number*, but also the *quality* of jobs matters to poverty alleviation and economic development.²⁰ This is because a job is a critical pathway out of poverty for most people. Indeed, focusing on job creation alone is not enough: Any new jobs supported need to be on the right track to becoming secure, well-paying, decent jobs.

For the ILO, this means value chain projects should focus not only on creating more jobs but also on ensuring they are better jobs. A key strategic decision facing projects is: Should they create new decent jobs or make existing jobs more decent?²¹ In many instances this means that the focus of projects will not only be on the drivers of labour market exclusion, but to understand and address the reasons why people are being adversely included in labour markets.²² There may also be important trade-offs to consider, which need to take into account the local context and economic transformation pathways. For example, in Tanzania recent job creation has largely been achieved by the growth in small firms in the informal economy (which is typically associated with lower-quality jobs) – but this has none the less made an important contribution to structural transformation out of agriculture into services, which is a critical driver of long-term poverty reduction.²³

²⁰ German Development Institute, MSEs as drivers for job creation, October 2015.

²¹ See also BEAM Exchange Blog « Should we create decent work or make work more decent? Demystifying what decent work means for Market System Development projects » The Lab, 2020.

²² Chronic Poverty Advisory Network blog post "Can social protection and labour market programmes contribute to social inclusion?", May 2014.

²³ <https://www.wider.unu.edu/sites/default/files/wp2017-16.pdf>

Finally, every value chain initiative needs to have both a gender and an environmental objective; with the minimum ambition to ‘do no harm’, but ideally to pursue opportunities for positive impact, as set out in Boxes 6 and 7.

Step 1 should end with a clear understanding of the target group and the nature of the broad employment challenge they are likely to be facing

**TIP!**

The more specifically the target group can be defined, the easier it is to “match” a sector to it. It is not very helpful to say “the poor” are the target group, since they do not form a homogeneous group. They include the “extreme” and the “moderate” poor, the urban and rural poor, poor groups who are excluded due to their ethnicity or other characteristics that make them more vulnerable, and poor women and poor men, for instance. The same diversity exists among “the unemployed”, where, for instance, the differences between youth and non-youth can be of particular importance.

However, define the target group too tightly and the project risks serving only a ‘narrow’ group, which makes it unfeasible to create large-scale change using market facilitation tactics. One project, for example, defined its target group as youth (under the age of 25) living in coastal areas in Kenya, coming from a particular disadvantaged ethnic group. The project eventually found out this was actually only a few thousand people, so the project’s potential for scale was limited from the get-go!

► Box 5: Defining geographic boundaries

Each project will be operating within defined geographic boundaries. In many cases, while projects are given a country-wide mandate (e.g. Sri Lanka), specific sectors they choose to intervene in may have a geographical dimension that may also be more or less narrow. The core production activities in an agricultural value chain, for instance, may be limited to a specific part of a country for reasons of climate or soil type. Selecting a value chain therefore often means selecting an area.

For some areas of decent work, a specific locality-based approach is used since it aims to address the root causes of issues such as child labour (poverty, access to education, governance, etc.) in a given geographical area, complementing the value chain interventions and helping to prevent children simply moving from one supply chain to another, or into a more hidden form of child labour.

Other projects may have a ‘local economic development’ mandate and be restricted to particular regions or areas of the country. This by definition limits the choice of sectors to those relevant to the given region. But projects may need to intervene outside of this geographic area in order to address the constraints, as well as to deliver a greater scale of impact. For example, policies are usually set and buyer-seller relationships do not usually conform to neat geographic lines. As noted earlier, value chains can span multiple countries and regions and be global in nature.

► Box 6: Gender objectives

Gender is an important consideration for all value chain initiatives. Projects should aim to understand how gender norms, roles and power structures influence how women and men engage in or are excluded from specific functions in a market system.

Experience indicates that value chain development can benefit women and men by:

- Furthering their inclusion in value chains in which they have a strong presence already and in which their involvement is socially and culturally acceptable, i.e. in accordance with existing gender roles.
- Developing value chains in new sectors, where gender roles may not yet be clearly defined and women in particular taking on new kinds of work may prove socially acceptable.
- Promoting a change in gendered positions or roles so that women and men can enter value chains in

which they are not traditionally present: For example, men who want engage in care taking, or traditionally “feminized” value chains, or women in male-dominated activities such as construction.

Gender therefore should be mainstreamed in all initiatives, regardless as to whether the project specifically targets women. In this sense, gender programming is simply good programming, and having a comprehensive understanding of how women and men engage in a value chain can help develop more targeted interventions and prevent negative outcomes. It is particularly important to avoid ‘doing harm’ unintentionally by not understanding gender dynamics. For example, evidence shows that as value chains become more mechanised or profitable, women’s engagement declines, and that gender is a key factor in determining who benefits from value chain development, and whether it is truly inclusive.²⁴

► Box 7: Environmental objectives

Potential impacts on the environment should be taken into account when defining the target group and project goals. This not only helps ensure value chain projects avoid unwittingly causing environmental degradation through the activities they support, it also helps to contribute to solutions that can benefit the planet – whether related to carbon neutrality, circular economy or conservation. At the start of any new initiative it is important to set clear expectations of the focus on the environment. Specific objectives could be to:

- Promote the growth of and create jobs in ‘green’ sectors, like renewable energy
- “Green” / Improve the environmental sustainability of a sector
- Increase the climate change resilience of a sector
- Ensure a do-no-harm approach in supporting sector growth

Promoting green jobs through the development of a green sector is different than through the “greening” of a standard sector. The objective of

the prior is to create jobs and increase incomes, while the latter is to improve environmental performance. Projects can have both objectives, but they must also look at them as separate in order to identify meaningful opportunities for working towards them both. Otherwise, projects run the risk of implementing interventions that are ‘greenwashed’ but that do not make any meaningful changes in terms of environmental performance.

The same notion applies when looking at do-no-harm growth and climate change resilience. While interventions focused on jobs and employment may contribute to these objectives or vice versa, they need to be looked at as their own unique objectives as well, in order to be able to clearly identify the best opportunities for reaching them.

Regardless of where the environmental objective falls on the spectrum, at a minimum, interventions need to seek to avoid adverse impacts to the environment, and where avoidance is not possible, such impacts need to be minimized, mitigated and managed.

²⁴ <http://www.fao.org/3/a-at245e.pdf>

Step 2: Establish sector selection criteria

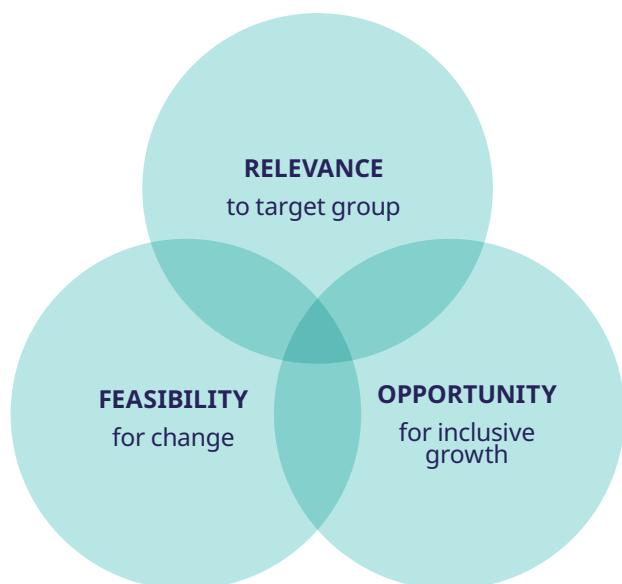
It is likely that the target groups a project hopes to benefit will face many decent work deficits. It is equally likely that local context, time and budget will not allow a project to address all of them – or at least all at the same time. Projects therefore need to prioritise which deficits to address.

The criteria for selecting value chains should flow directly from the definition of the target group and goal, as the sector should be relevant to the former and have potential to achieve the latter. Value chain projects use three over-arching selection criteria:²⁵

- ▶ *Relevance to the target group*: potential for the target group in the sector, and the nature of the decent work challenges they are facing.
- ▶ *Opportunity for inclusive growth*: opportunities to create more and better jobs in the core value chain.
- ▶ *Feasibility to intervene*: the extent to which a project will be able to facilitate change given the sector and country context (see Box 8).

Within each of these, specific sub-criteria are developed in order to make a comparison between sectors. Gender, as a cross-cutting issue, should always be mainstreamed in the sector selection process by considering the criteria for women and men separately and disaggregating data by sex where relevant. Environmental sustainability concerns should also be taken into account in setting sector selection criteria, but the specific way this is done will depend on the environmental objective/strategy taken by the project – as shown in Box 9.

Figure 2: Sector selection criteria



There is considerable flexibility about which specific criteria to use, and the relative weighting they are given in the selection process. Box 10 sets out example sector selection criteria used by the ILO for a refugee livelihoods intervention.

Step 2 should end with agreement on the project's sector selection criteria between the project, donor(s) and other key stakeholders.

²⁵ Based on the Operational Guide for the Making Markets Work for the Poor Approach



► Box 8: Feasibility - can we make a difference?

Feasibility needs to consider both wider ‘political economy’ factors as well as the project’s own resources and influence – what is feasible for one project may not be so for another. Feasibility is therefore situation-specific. Examples of factors that could reduce the likelihood of a project being successful are:

- A high level of fragmentation – if linkages between actors in the value chain are weak, and different actors, including business membership organisations and relevant government institutions, are at odds with each other, the scope for successful interventions is more limited.
- A high level of corruption within the sector – for instance, when a construction sector is dominated by a few large companies that win all government tenders through political contacts and kickbacks.
- A high level of political or government interference – for instance, a project to improve agricultural sectors by developing the private sector market for inputs is unlikely to succeed when the government has launched a large subsidized inputs programme to win votes. Conversely, an active government that has put tourism development at the top of their strategic development plan, would enhance the project’s feasibility to drive scaled change in tourism.
- Constraints in the market system’s supporting functions or rules that are difficult to change – for instance, if a value chain’s main constraint for development is the absence of proper infrastructure such as roads or ports, change might require large-scale infrastructure investments that go beyond the capacity of the project to change.

► Box 9: Sector selection considerations by environmental objective

Criteria that reflect the project’s environmental objective should be integrated into the sector selection process. The below table outlines the main considerations for sector selection, depending on the choice of strategy.

| ENVIRONMENTAL OBJECTIVES | SECTOR SELECTION CONSIDERATIONS |
|---|---|
| 1 Promote growth in a “green” sector / create green jobs through the promotion of a “green” sector | The sector selection should short-list green sectors whose growth will continue to have a net-positive impact on the environment (e.g. renewable energy). Criteria should then look at which of those sectors holds the highest potential for creating decent work. |
| 2 “Green” / Improve environmental sustainability of a sector | Criteria should assess the potential capacity of the sector to grow in a way that reduces the overall negative impact on the environment, including through improved circularity (the conversion of an end product into an economic good and/or sourcing of recycled or repurposed inputs). |
| 3 Increase climate resilience (adaptive capacity) of a sector | Criteria should assess the gravity of climate change risks in the sector and the opportunities for increasing resilience within the context of the project. |
| 4 Promote a do-no-harm approach | Criteria should assess the potential capacity of the sector to grow without furthering negative environmental impacts, or the possibility to eliminate, reduce, or mitigate those impacts. |

For resources on environmental criteria for sector selection see https://www.ilo.org/empent/Projects/the-lab/WCMS_416390/lang--en/index.htm (2015).



► Box 10: Selecting sectors to support refugee livelihoods

Traditional approaches to improving livelihoods for refugees usually focus on strengthening the supply-side of the labour market by improving the skills of refugees. But to achieve economic inclusion in a sustainable way, interventions need to be based on a thorough analysis of the existing demand for

labour, products and services, and of market systems in which refugees could make a living. The ILO and UNHCR have produced a guide to market-based livelihood interventions for refugees, which uses the guiding market systems criteria of relevance, opportunity and feasibility:

| CRITERIA | SUB-CRITERIA |
|---|--|
| Relevance to the target group | <ul style="list-style-type: none"> • What is the estimated number of refugees already engaged in the sector (gender disaggregated)? • How do refugees participate in the sector (as producers, workers or consumers)? • What are the major problems refugees face in the work they do in this sector? • Is there potential to integrate (more) refugees in the sector? • Do skills needed in the sector correspond to the profile of refugees in the location? |
| Opportunity for growth and employment creation | <ul style="list-style-type: none"> • What is the overall size of the subsector with respect to volume and value of output, contribution to gross domestic product, foreign direct investment and employment share? • What is the job creation potential, based on industry growth, size, employment elasticity, and number of and relative value added by medium, small and micro-enterprises in the sector? • What is the previous and forecast growth of the sector? • What are the current levels of innovation, productivity and competitiveness and/or collaboration in the sector? • What are the main issues in relation to working conditions and are there opportunities to improve them? • Do refugees face particular barriers to accessing markets in this sector? If so, what are they? |
| Feasibility of interventions | <ul style="list-style-type: none"> • What is the feasibility of addressing the most significant challenges faced by poor workers, given the current economic and political environment? • What are the relevant government policies and programmes which influence this sector? • Which donor programmes are present, where, and what are they doing/funding? • Are there market actors willing to change their business models/adopt new practices? • Are there available training institutions, government ministries or other partner organizations that are willing to take part in and/ or take responsibility for some elements of intervention in this sector? |

Read more: The Approach to Inclusive Market Systems (AIMS) for Refugees and Host Communities can be found here: www.ilo.org/aims

Step 3: Short-list sectors

Projects then apply the criteria to move from a long-list to a short-list of sectors. In some cases, the long-list may be all sectors in the economy (or all sectors relevant to a particular target group). In other cases, the long-list may have been pre-defined by donors or by a government, for instance, drawn from sectoral priorities in a national industrial strategy. Box 11 sets out an example from Bolivia.

At this point, the programme should start studying the local economy and its most relevant (long-listed) economic sectors, and start gathering preliminary information against the criteria. Secondary sources are often

plentiful; and can either be obtained online or by contacting relevant stakeholders (see Box 12).

In cases where secondary information is scarce or unreliable, there are two options:

- Conduct one or several consultative workshops with key stakeholders to use their market intelligence and sector expertise to come up with the short-list.
- Conduct a Rapid Market Assessment. This option consists of researching sectors to see which of them are likely to fulfil the selection criteria. See Step 4.

Step 3 should end with a short-list of sectors to choose for possible intervention; or a plan for deeper scoping.



Box 11: Sector selection in practice

In Bolivia, a sector selection exercise was undertaken with a focus on small and medium-sized enterprises (SMEs) in sectors conducive to export and to business formalization processes in the La Paz area.

A longlist of 12 sectors was developed based on discussions with the government and national employers' organisation. This was narrowed down to a shortlist of 8 sectors based on initial desk research: Manufacturing (textiles, leather, wood, precious metal jewellery), construction, agri-business (Andean

grains, fruit) and tourism. Secondary source data was gathered against the three criteria:

- Relevance:** How relevant is the sector for SMEs and employment in the department of La Paz?
- Opportunity:** Is the sector growing and is there potential to create quality jobs in SMEs (especially in high value-added activities)?
- Feasibility:** Within the limits of the project, how feasible is it to sustainably address the most significant challenges faced by SMEs?

| SECTOR | RELEVANCE | OPPORTUNITY | FEASIBILITY |
|-------------------------------|-----------|-------------|-------------|
| Textil Manufacturing | MEDIUM | LOW | LOW |
| Leather Manufacturing | LOW | MEDIUM | LOW |
| Wood Manufacturing | LOW | LOW | LOW |
| Jewelry of precious metals | LOW | LOW | LOW |
| Construction | HIGH | MEDIUM | LOW |
| Agroindustry of Andean Grains | MEDIUM | MEDIUM | HIGH |
| Agroindustry of Fruits | MEDIUM | MEDIUM | MEDIUM |
| Tourism | HIGH | MEDIUM | MEDIUM |

Data collected showed textile-manufacturing as a highly relevant sector for many SMEs and workers in La Paz. It was however experiencing a decline and with the project's limited time and resources for implementation, it would not have been feasible to rescue a sector in crisis. Instead, the project decided

to select two sectors with growth potential where even a small but strategic investment could have a major and scalable impact on SMEs and employment generation. This led to two sectors being prioritised for analysis: agribusiness sector with a focus on Andean grains and tourism.

Read more: "[Dos vías hacia la exportación y la formalización de empresas](#). Una evaluación rápida de mercado en los sectores de granos andinos y de turismo en Bolivia", ILO The Lab.

► Box 12: Possible sources of information to shortlist sectors

The following stakeholders are usually good sources of information:

- Government ministries and departments (e.g. ministries of labour, trade, industry, agriculture and the environment) and local authorities in the target region (e.g. department responsible for business registration)
- National or regional employers' organisations, business membership organizations, and those specific to sectors under consideration
- Workers' unions and representative organizations
- Statistical units of central banks and ministries of finance, national census departments/bureaus and statistical institutes

- Donor-funded projects and programmes: ask if other agencies have done the same or similar value chain analyses of the sector you are focusing on. This helps avoid duplication and can be a valuable source of information.

- Research institutes such as think tanks and universities

Note: Many of these groups may be characterised by underrepresentation of women. It may therefore be necessary to talk to women's associations, women-owned cooperatives to gain additional insights on gender dynamics.

Step 4: Scope sectors

A Rapid Market Assessment (RMA) can be used to shortlist sectors; or to narrow down the short-list to choose the sector(s) for intervention.

An RMA is a quick way of collecting, processing and analysing lots of information. It helps give a 'first look' at a sector to determine the likely relevance to the target group, decent work opportunity and feasibility of intervention. The main objective of an RMA is to determine whether the sector holds the potential to create more and better jobs for the vast majority of the target group. It provides an overall idea of the main sector challenges and constraints to support evidence-based decision-making relative to which sector to select.

Often projects have multiple goals and target groups to reach, hence it is recommended that projects include a portfolio of more than one sector, wherein some will meet a given set of goals and target groups, while others will meet a different set of goals and target groups. In these cases, selecting a 'portfolio' of sectors might make more sense.

The RMA is organised against the project's sector selection criteria. Key questions for each criterion should guide the research, making use of secondary sources, interviews and group discussions with a wide range of market actors, including the target group. Developing

a semi-structured set of questions for use in interviews and group discussions will help ensure that information collected is relevant and consistent.

Overall, an RMA takes place in three stages:

- 1 Further revision of secondary sources and preparation of field visits
- 2 Visits to relevant market actors and other key informants: interviews, conversations, focus group discussions, questionnaires, among others
- 3 Analysis of findings: the results of the RMA should be assessed against the selection criteria, either through in-depth discussions with the project team or through a formal scoring process.

As the opportunity for and feasibility of change are usually among the criteria, an initial identification of constraints on the performance of the value chain in relation to target groups is included. This does not aim at the same depth as the later market systems analysis, but it helps indicate potential areas for further focus. These could be as general as 'skills mismatch', 'inadequate flow of information in the value chain', 'absence of legislation and services on food safety', or 'poor working conditions'.

Step 4 should end with the evidence-based justification of the selected sector(s) and a brief report on the main findings of the rapid market assessment

Step 5: Stakeholder engagement and participatory decision-making

The next step is the final selection of the sector(s). This is best done with the help of one or more meetings to consult with groups of stakeholders, including development projects or agencies. This increases ownership over the findings and final decision, can correct oversights or errors in the findings, and contributes to consensus building.

Meetings should include presentation of the RMA findings and should also be used to validate the

initial identification of constraints or intervention areas. Discussion can then lead to a majority of participants recommending one or more sectors to the project team.

Step 5 should end with a validation and consensus around the selected sector(s)



How narrowly should projects define sectors?

Selection usually starts by considering broad economic sectors, but it should end with the choice of a specific value chain. For instance, a project may start by considering the tourism sector, but eventually 'zoom in' on the specific value chain of rural tourism.

Nevertheless, while value chain development initiatives may typically start by targeting a specific value chain in question, a project may eventually focus on a supporting function or rule that cuts across several value chains. For example, the analysis of the maize value chain may determine that the supporting function of "inputs" is weak. As inputs are used in all agricultural value chains, working to improve the input supply function may well benefit several agricultural value chains beyond maize. The same may apply for supporting functions like "media" or even "land" or "labour".



Who should participate in sector selection?

It is risky to involve individual enterprises in the sector selection meeting. It creates expectations of support, and can even lead to accusations of favouritism or unfair competition. Enterprises from the sectors themselves of course also have an interest in "their" sector being selected. However, private actors such as representative associations can play an important role in the validation of findings, as they can speak for a number of enterprises. In all cases, someone should be invited with expertise relevant to women in business, e.g. a representative of a women's business association, a women's organization or an expert.

Selecting a value chain using stakeholder meetings is a participatory, but not a democratic process. Such participants are handpicked, and some of those selected may not attend. Meetings also run the risk of some vocal and powerful stakeholders imposing their agenda. It is therefore important to make clear that final decisions are not being made at stakeholder meetings, but are seen as more 'advisory' in nature.

2.2 Managing the process

While it is likely that many elements of the strategy-setting process such as definition of the target group and project goals will be set by the donor or project proposal writer, sector selection is best led by the project team. To this end, project documents could define initial sectors quite broadly – for example ‘tourism’ or ‘agriculture’ – leaving it up to the project team, once hired, to conduct the research and analysis in order to make a more evidence-based decision. Once sectors for further assessment are short-listed, it can be useful to hire consultants with sectorial expertise. For example, if selecting between agriculture sub-sectors, it might be worth contracting an agronomist who knows various agriculture sub-sectors and the key actors within them.

Research for sector selection is the start of developing relations with market actors who may become crucial to the eventual interventions. Make use of this opportunity, and ensure such relations get off to a good start. Team members need to be trained, especially on how to approach private sector actors, and must avoid raising unrealistic expectations of what the project might eventually support. In the words of one practitioner, “once we started analysing and talking to actors and other stakeholders in the tea sector, we could not withdraw anymore because of expectations raised”.

Sometimes, it is important to draw on specific technical expertise. Environmental issues are usually complex, and having someone knowledgeable of the relationships between the environment and economic and social issues can be just as important in the preliminary phase of a project as the project implementation phase. Whether a consultant or project staff, this person should

also be able to conduct focused assessments that align with the project’s environmental objective, including knowing and consulting the most relevant stakeholders to draw out key information in the process.



How long should it take?

Ideally, the whole sector selection process takes no more than 4-6 weeks, but can take longer if RMAs are conducted, and the short-list of sectors is large (more than 4).



Navigating the politics

Sector selection often remains a subjective, politically charged process with the existence of vested interests and stakeholder pressures, despite a project’s best efforts to bring in a degree of objectivity. Even in the best cases, sector selection is more of an art than a science, so be wary of placing too much emphasis on weighting or quantitative scoring. Simple binary scoring (yes/no) or traffic light rating can be most useful in practice. In the words of one project: ‘for us the most important thing is... the process: how to select the right actors to talk with, how to find the right data, how to interpret the opinion and inputs of stakeholders. That is more important than the techniques of setting criteria, scoring and weighting’.



Core competencies for strategy-setting and sector selection

Projects need to make difficult decisions during strategy-setting and sector selection: decisions that will ultimately influence the rest of the project's lifetime and its chances of success. For strategy-setting and sector selection, high-performing project teams exhibit the following knowledge, skills and attitudes:

- Systems analysis – the ability to understand value chains and their role in poverty reduction from a systems perspective
- Integrating sectoral knowledge – knowing how and when to get help from sector experts to improve analysis and strategy

- Knowledge synthesis – the ability to do background research, interrogate data and summarise findings cogently
- Decision making – able to make objective decisions despite limited or uncertain information

The BEAM Exchange includes detailed guidance – including case studies, teaching materials and example interview techniques – for each of the above competencies.²⁶



Further reading

Guidance:

- [Sector Selection for Decent Work: Tips, Tricks and Tools](#)
- [Guidelines for Value chain selection](#): integrating economic, environmental, social and institutional criteria (ILO and GiZ)

Examples:

- [Guyana: Finding Export and Value Add Opportunities in Thin Markets](#)
- [Assessment of select horticultural sectors in Kyrgyzstan, and their market access potential](#)
- Rapid market assessments from [Nepal](#) and [Myanmar](#)

²⁶ <https://beamexchange.org/msd-competency-framework/msd-competencies/>

3 Analysis: Understand the root causes of decent work deficits

Summary

This chapter focuses on the market systems analysis phase, which aims to understand what is causing sectors to under-perform - and why decent work deficits are persisting.

Learning objectives:

- Knowledge of the frameworks used to understand why sectors might not be meeting the needs of target groups, and identify the root causes of underperformance
- Awareness of the practical implications and processes for conducting a market systems analysis

Key steps:

- Unpack how the sector functions by mapping the value chain and the decent work deficits
- Analyse constraints to sector performance, which are found in the 'rules' and 'supporting functions'
- Develop a systemic change vision for how the value chain can function better to support more and better job creation

Once the sector has been selected, research and analysis is carried out in order to identify constraints to value chain performance – 'rules' or 'functions' that are not operating well - and opportunities to improve them. The underlying reasons driving decent work deficits may not be immediately obvious. The key is

to spend time investigating what the challenges are and 'why' they persist using a structured, analytical process.

This involves undertaking a Market Systems Analysis (MSA).

3.1 Process for market systems analysis



Step 1: Map core value chain functioning

Getting a clear picture of the key actors in the value chain and of the linkages between them is crucial to guide subsequent analysis. The aim of this step is to better understand the ‘core’ exchanges taking place in the value chain, and who is involved.

Value chain mapping is usually the first activity in an MSA. It unpacks important transactions and relationships in the flow of a product or service from raw materials through to final retail (and, in the case of circular economies, to re-use). This includes:

- ▶ **The process** by which a product or service goes through several stages until it reaches the end customer.
- ▶ **Key market actors:** businesses involved in the core value chain transactions, and organizations that provide supporting services and set the rules (government, banks, associations, etc.)
- ▶ **Value addition** that takes place as a result of each process.
- ▶ **Different market channels** through which products and services reach the final customer and the end market, the relevance of such channels for accessing new markets, and characteristics of these markets (e.g. size, number of competitors, quality requirements).
- ▶ **Relationships between actors** in the core value chain and characteristics of these relationships (e.g. weak or strong, positive or negative, power differences).

- ▶ **The number of target group members** (e.g. women or migrant workers) working in particular channels and at particular levels in the value chain.

- ▶ **Information about prices and financial flows** at and between different value chain levels.

Value chain mapping may have started already during the sector selection stage. A set of detailed questions that project teams can ask in order to flesh out their understanding of value chain functioning is included in Box 14. These maps often do not need to be drafted from scratch; they can use or build on existing value chain analyses or publicly available material, such as from research institutes, market intelligence companies – or even other donor projects.

A value chain map is usually represented visually. This can be done in a basic format, as in Box 13, by setting out a typology of key actors involved such as importers, wholesalers, retailers, manufacturers, brands, etc. To complement the basic value chain map, a depiction of value distribution and capture, as in Box 13, can provide an important lens to begin to understand the opportunities available to improve the performance and position of specific target groups within the chain.

Step 1 should end with a clear understanding of the main actors, transactions and processes required to take a product or service from raw materials through to retail.

► Box 13: Example value chain maps

There are many different ways to visualise a value chain and the flow of goods and services from inception to end-use.

Figure 3 shows a value chain map for processed fish for domestic markets in Myanmar. The value chain is made up of small family or women-owned business enterprises with low technologies of processing. Main products consist of dried fish, dried shrimps, fish paste, and fish sauce which do not require freezing process.

The processors generally buy their raw materials from inshore vessels. In many cases, these micro and small processors also have their own inshore fishing vessels. In Yangon, processors for the local market usually get their fish supply from wholesalers or from vendors in the wet market. Products from artisanal processors are sold mainly by vendors in the wet market.

Figure 3, the flow of processed fish from source to market, Myanmar

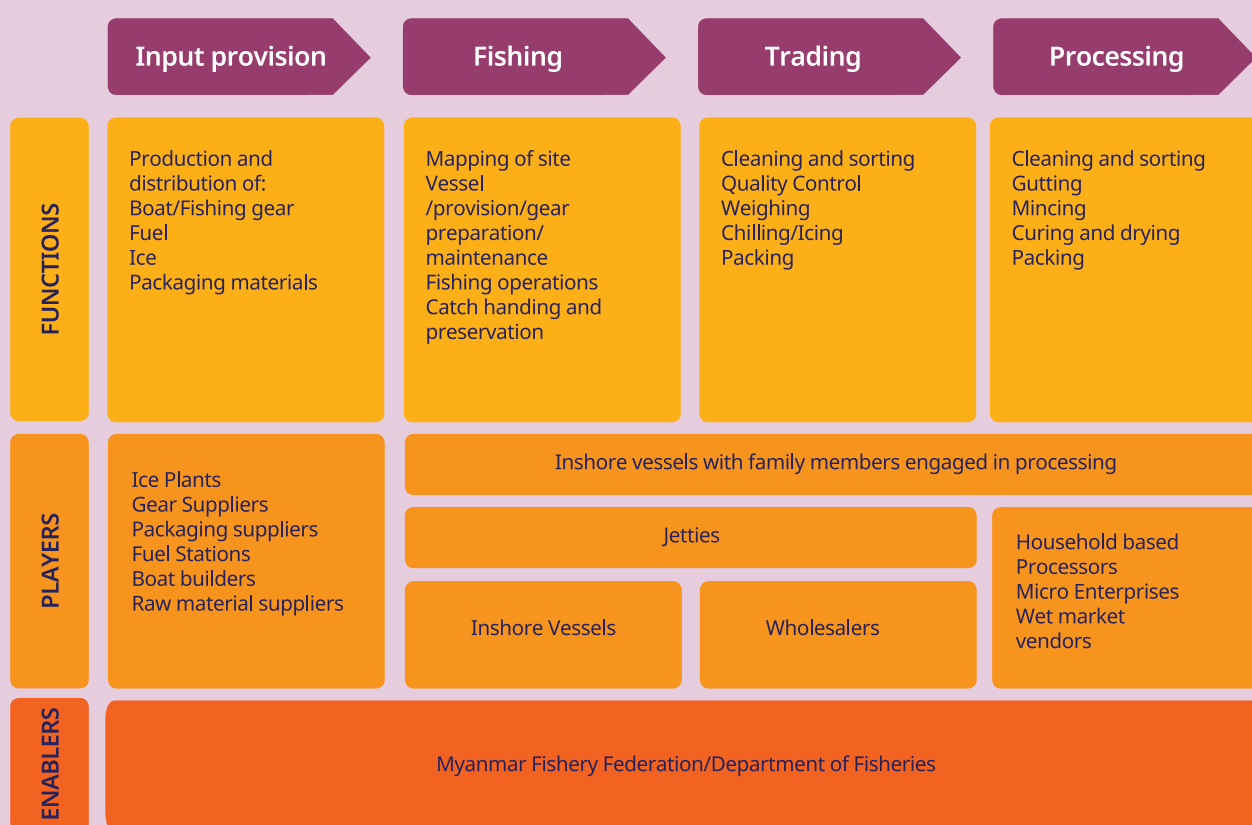
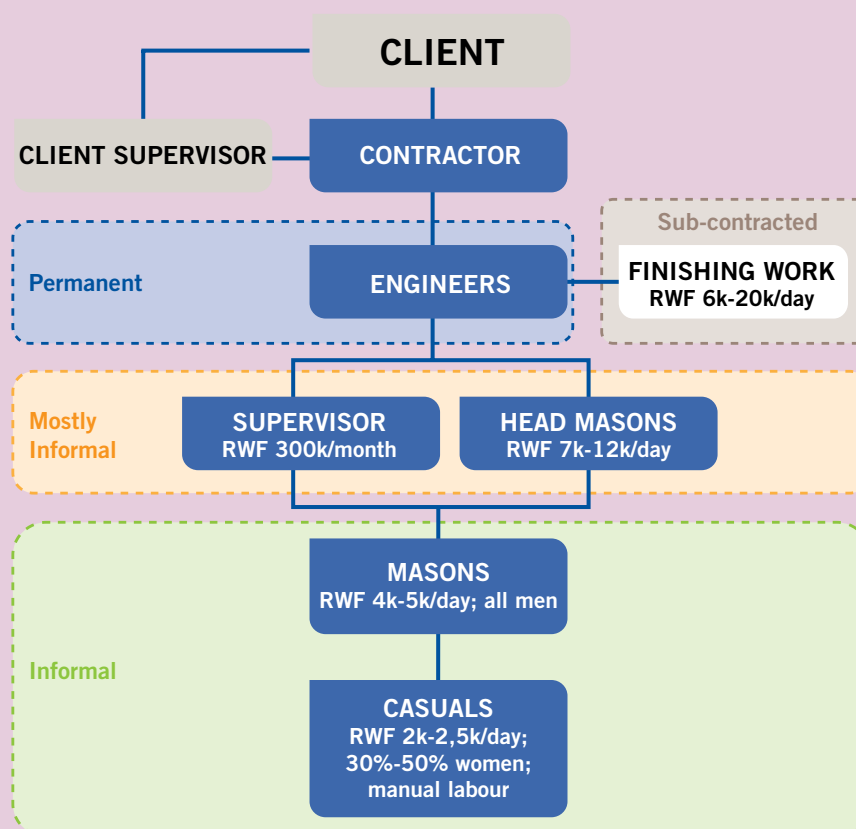


Figure 4 shows a simplified value chain map for the building construction sector in Rwanda. It shows the process for larger-scale construction projects that are often driven by government contracts to build

real estate assets such as office buildings. The map overlays both the types of labour used (permanent or temporary) as well as average wages and gender disaggregation.²⁷

²⁷ From 'Laying a Foundation for Better Working Conditions: A market systems analysis in Rwanda's building construction sector' available at: https://www.ilo.org/empent/Projects/the-lab/WCMS_644797/lang-en/index.htm

Figure 4, key steps in the building construction value chain, Rwanda



► **Box 14: Common topics and research questions to focus on during value chain mapping**

Actors and processes in the value chain

Before deeper research can take place, it is important to understand the basic structure of the core value chain.

- What categories of market actors - such as farmers, collectors and retailers - are involved from the start of the chain to the end market?
- What are the different processes - such as production, processing and marketing - which take place in the value chain, before product and services reach the final consumer?
- What are the different market channels through which products and services reach the final customer and the end market?

Firm-level performance

Competitiveness of individual firms and the value chain as a whole is affected by firm-level performance of core business functions, such as marketing, procurement, production and financial management. As such, it can be important to understand the performance of firms at each level of the chain, as well as the causes of poor performance and the opportunities for improvement.

- How well are businesses at each level performing core business functions?
- Are there any differences between the performance of women-owned and male-owned firms?
- What are the firm-level causes of low performance?
- How well are businesses owned by the project's target groups performing core business functions?

Market linkages

Linkages between actors can have a marked effect on the performance of the system. As such, it may be useful to identify the structure of these linkages, as well as their dynamics, such as level of formality and trust.

- What linkages exist between enterprises at the same level of the value chain?
- What linkages exist between enterprises at different levels of the value chain?
- What linkages exist between enterprises within the value chain and actors outside the value chain?
- Are relationships informal or formalized in contracts?
- Are relationships stronger between certain social categories? For example, are they stronger between people of a specific gender, ethnicity or level of poverty?
- What levels of trust exist between enterprises?
- Are enterprises organized into cooperatives and associations?

Power relationships and value chain governance

There can be significant differences between value chains in terms of who has market power and influence over key decisions about operations in the value chain. In particular, who decides or influences:

- What is to be produced: including product design and specifications
- How it must be produced: including labour and environmental standards, as well as technology to be used
- How much is to be produced and when: including production scheduling and logistics

End markets

The existence of a strong market for the products or services sold by the value chain is fundamental to the successful development of the value chain.

Beyond confirming the existence of general demand, it may be important to understand past and future trends, high potential market segments and market positioning. End market research is therefore key to identifying viable opportunities for value chain development. Consumers could be end consumers but also big buyers in the chain like supermarkets or other larger enterprises.

- Are there any signs that indicate future increases in demand?
- Are there opportunities to strengthen market access, including through trade preference schemes or via intra-regional trade?
- What criteria have to be fulfilled to satisfy consumers, including those related to environmental or working conditions concerns?
- Have there been any changes in consumer trends?
- Are there specific quality standards or restrictions?
- Are there opportunities to expand from local to national markets, for import substitution or export?

Value addition and capture

Value addition for target groups is often a key objective for value chain interventions. A simple example would be for farmers to move from growing and selling mangoes, to processing the mangoes into concentrate and selling it at a higher price. Finding out where in the chain the most value is currently created can provide useful information to guide interventions.

- What proportion of the total value is currently captured by actors at each level in the value chain?
- What proportion of the total value is currently captured by target groups – such as women and the poor – at each level in the value chain?
- What are the underlying causes of low value addition for target groups, such as women and the poor?
- Are there any gender dimensions related to value addition and capture (e.g. women are more involved in less profitable segments)?

Step 2: Understand decent work deficits

Whether for low-wage labourers, marginalised workers, or rural producers – sectors will inevitably have different decent work challenges, and these challenges will be felt with different levels of depth by the people experiencing them.

As with sector selection, important decisions need to be made during the analysis phase about which specific deficits to focus on. It is likely that workers will face a great many problems – the task of the project is to ‘zero in’ on the ones it will seek to improve. It is however important to start with an open approach to the analysis phase, scanning all potential decent work deficits, and understanding which are most important to the target group. The decent work focus can then be narrowed down over time based on empirical evidence – rather than starting with a ‘predetermined’ focus which might not reflect the most important decent work deficits.

For example, while it is often the case that incomes are vital to maintain livelihoods, sustained pathways out of poverty require quality jobs – covering other

non-monetary aspects of employment. An employee on a dangerous construction site, for instance, will likely have an immediate need for better occupational safety before any other aspects of decent work (which require a worker to be alive!) are covered (see Box 17, “Boxes 15 through 18”).

A decent work lens to market systems analysis needs to go beyond simply asking stakeholders what matters most to them, to taking an analytical view across jobs at the level of individual, firm, and labour market. Elements of decent work are mutually supportive and often inter-linked in a complex pattern. The same construction worker may think their biggest issue is wages; but may not be able to make the connection to occupational safety, or even know about social protection. The role of the project is to make these connections and take a ‘helicopter view’ of the sector. Boxes 15 through 19 below set out frameworks for projects to systematically examine decent work in value chains.

Step 2 should end with a prioritised set of decent work deficits, mapped onto the value chain to show where they are most prevalent.

► Box 15: The ten substantive elements of the Decent Work Agenda

Actors and processes in the value chain

The ILO’s framework for measuring decent work organises indicators against 10 themes. These can be considered as potential typology of decent work deficits facing target groups:

- Lack of employment opportunities;
- Inadequate earnings and productive work;
- Indecent working time;
- Inability to combine work, family and personal life;

- Presence of work that should be abolished (child and forced labour);
- Lack of stability and security of work;
- Unequal opportunity and treatment in employment;
- Unsafe work environment;
- Absence of social security; and
- Lack of social dialogue, employers’ and workers’ representation.

Source: Decent Work Statistical Indicators

► Box 16: Gender and decent work deficits

Target groups may be facing many decent work deficits; and different aspects of the situation may be interacting to create unique types of disadvantage or discrimination. In all instances, special consideration should be given to gender and the differences that may exist between males and females. Guiding questions here could include (but are not limited to):

- What is the overall representation of women and men in the sector?
- Are women and men paid equally for tasks of equal value?
- Are women generally limited to the lower-paying positions (i.e. occupational segregation)?
- Are women more likely to be in vulnerable employment?
- Are women present in leadership positions?
- What are the social and cultural norms regarding unpaid care and domestic work?
- Is there evidence of other forms of discrimination against women?

► Box 17: Preventing injuries and diseases in global value chains using a market systems approach

As part of a Programme of Action on Decent Work in Global Supply Chains, the ILO has developed [guidance](#) on how to assess the drivers and constraints for occupational safety and health (OSH). The guide uses a market systems approach to provide an overview of OSH hazards and risks, and to tailor interventions that will reduce occupational accidents and diseases and improve well-being. It was developed in the framework of the Joint ILO-EU project to improve knowledge about safety and health in global supply chains.

The assessment methodology was piloted in three countries: Colombia, Indonesia and Madagascar. In each country, the project selected one food and agriculture global value chain (coffee, palm oil and lychee respectively), analysing the sectors to understand key underlying factors and actors influencing OSH outcomes.

Read more: [Food and agriculture global value chains: Drivers and constraints for occupational safety and health improvement](#)

► Box 18: Common topics and research questions to focus on during decent work analysis

| JOB QUALITY | |
|---|---|
| Skills and employability Topics addressed: lifelong learning, on-the-jobs and technical and vocational training | <ul style="list-style-type: none"> • How the structure of the workforce is shaped by market dynamics and regulatory issues • How technology interacts with the workforce and impacts size, skills demand, wages, etc. • How growth and the nature of market opportunities impacts firm decisions on the size and nature of the workforce • How skills availability and gaps impact jobs outcomes |
| Earnings and income Topics addressed: wages, equal pay for equal work, benefits, productivity, wealth creation | <ul style="list-style-type: none"> • Are wages sufficient to meet basic needs? • Are workers earning a fair or living wage? • Do wage structures provide adequate compensation for moving into higher productivity work? • Are earnings allowing households to build wealth and progress out of poverty? • Do target groups receive non-wage benefits such as housing, transport, meal and other allowances; and/or performance bonuses? |
| Job security and stability Topics addressed: informality, gig economy, terms and conditions of employment, social security | <ul style="list-style-type: none"> • Are people working under precarious conditions (including informally)? • Do people face additional disadvantages due to their gender, ethnicity or race? • Do workers have regularised employment, predictable hours, access to benefits? |
| Health and well-being Topics addressed: occupational safety and health, work-life balance, human resources, worker well-being, organizational culture | <ul style="list-style-type: none"> • What levels of occupational health and safety currently exist? • What are the trends in occupational accident and injury rates over time? • How does worker health and well-being affect wider family and community well-being? • Are gender-specific preventative measures in place? • Are there issues related to excessive stress in the workplace? |
| Rights, respect and cooperation Topics addressed: gender, non-discrimination; social dialogue, freedom of association, grievance mechanisms; bonded and child labour | <ul style="list-style-type: none"> • Are employers respecting relevant labour standards, including minimum age for employment? • Have there been reports of child or forced labour in the sector? • Is there discrimination, harassment and intimidation in the workplace? • Are employment opportunities restricted on the basis of sex, gender identity, sexual orientation, political affiliation, skin colour, ethnicity or beliefs? • Do workers have sufficient voice and the freedom to join representative organisations and bargain collectively? |

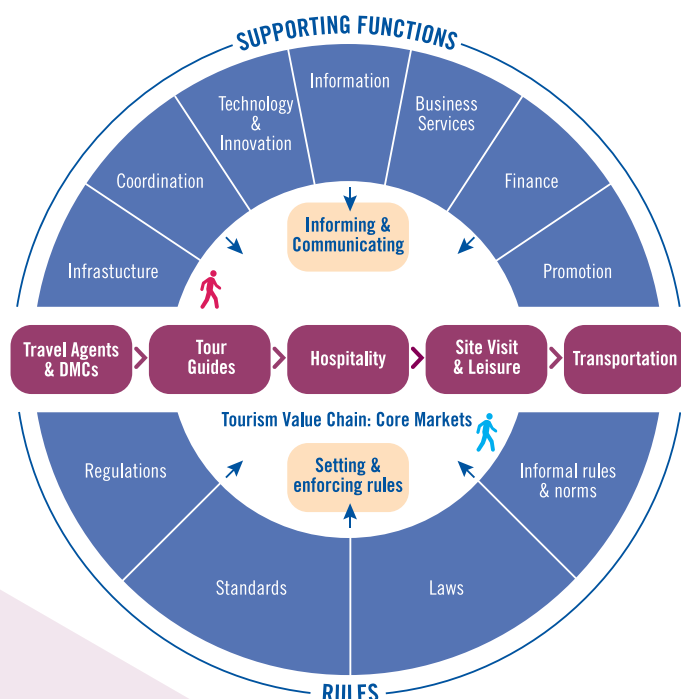
Step 3: Identify important functions and rules

A systems approach means going beyond the core value chain to understand the wider network of actors and factors influencing exchange. In market systems jargon, the world around a value chain transaction (at any link in the chain) is split into:

- ▶ **Supporting functions.** The context- and sector-specific functions that inform, support and shape the quality of exchange; such as information, skills, infrastructure, finance and access to markets.
- ▶ **Rules.** The legislative and regulatory environment, including policies, voluntary standards and social norms that guide day-to-day attitudes and conduct.

The market systems diagram - the 'doughnut' - shows the set of functions and rules surrounding the core value chain. An example of a market systems diagram for the tourism value chain in Vietnam is shown in Figure 5.²⁸

Figure 5. A market systems diagram for Vietnam's tourism sector



This step involves identifying which functions or rules are not working well. For example, research on the construction value chain may show that one of the main 'constraints' for small construction companies is the lack of skilled workers. The constraint in the core value chain is therefore related to the supply and demand of skilled labour. To understand why the skills function is underperforming, we then need to analyse this function as its own system (see Step 4).

Any relevant rules and supporting functions can be considered, though these typically fall under the categories outlined below.

| RULES | SUPPORTING FUNCTIONS |
|--------------------------|---------------------------------|
| Regulations | Infrastructure |
| Standards | Technology |
| Laws | Coordination |
| Informal rules and norms | Research and development |
| | Information |
| | Skills and capacity |
| | Social dialogue ²⁹ |
| | Business and financial services |

During this step, maintaining focus is important to keep the MSA to a manageable level. The aim is not to identify every supporting function or rule shaping value chain performance; but to focus on those functions and rules linked to a constraint facing the target group and one that could be feasibly addressed by the project.

However, gender dimensions should be considered, using the questions as set out in Box 20 to – at a minimum – ensure no harm. And specific functions and rules related to the environmental performance of the value chain may need to be selected, depending on the project's environmental objectives as set out in box 21.

Step 3 should end with a set of functions and rules for further analysis.

²⁸ Source: Rapid Market Assessment of the Tourism Value Chain in Vietnam, the ILO Lab, 2017

²⁹ Social Dialogue is defined as all types of negotiation, consultation or exchange of information between representatives of governments, employers and workers on issues of common interest. It is an important supporting function, because it can enhance collaboration between market actors, which may lead to improvements in business performance and working conditions.

► Box 19: Common topics and research questions to focus on during function / rule identification

RULES AND SUPPORTING FUNCTIONS

Rules and supporting functions are critical to maintain and develop the competitiveness of the value chain, and ensure that enterprises provide good working conditions. It is essential to identify the most relevant of these, assess their performance and identify the underlying causes of areas of poor performance.

- Which rules and supporting functions currently exist and are linked to the identified constraints and symptoms?
- Which market actors perform these rules and supporting functions?
- How well do they perform these rules and supporting functions?
- Which rules and supporting functions do not currently exist, but would improve business performance or working conditions in the value chain?
- Do these rules and supporting functions affect women and men differently?
- Are some of these rules inconducive to gender equality?

Read more: [“Bending the rules. How to use a systemic approach to improve the rules of the game”](#).

► Box 20: Integrating environmental considerations into an MSA

Below are considerations to be made when conducting a market systems analysis, depending on the environmental objective.

Objective 1: Promote growth in a “green” sector / create green jobs through the promotion of a “green” sector

If the objective is to create green jobs through the promotion of ‘green’ value chains or sectors, such as renewable energy, green construction, or sustainable agriculture, the approach is widely the same as any market systems or value chain analysis, since the selection of sectors or value chains is already narrowed down based on the criterium that it is a green sector. The assessment will still look at the supporting services and rules that influence the performance of the value chains, and any constraints that might prevent decent work outcomes. However, the project may need to engage with actors outside the more standard market systems project, while probing opportunities, such as the Ministry of Environment and other environmentally motivated stakeholders.

Objective 2: “Green” / Improve the environmental sustainability of a sector

Using market systems analysis to identify opportunities for improving the environmental performance of

a value chain could entail looking at CO2 emissions, waste management, and/or natural resource consumption or depletion. Analysing these issues in a market context can become quite complex, but the same MSA tools can be applied to break it down. The only difference is that instead of looking at the supply and demand of a product or service, we look at the supply and demand of an environmental outcome (as it relates to that specific value chain). For example, if increasing biodiversity along a horticulture value chain is the objective, then how is consumer demand for organic produce influencing agricultural practices, and how are the existing services and business regulations in that market system encouraging or discouraging practices that promote biodiversity?

Objective 3: Increase climate resilience of a sector

Market systems analyses focused on jobs and income often do look at services and regulations that influence the adaptive capacity of value chains, particularly when the target group is especially vulnerable to natural disasters – such as droughts, floods, and storms – as the link is more obvious in terms of the immediate threat that natural disasters pose on the livelihoods of the target group and their ability to work in the sector. However, to look at the issue more comprehensively, an MSA can also look at adaptive capacity itself, through a market systems lens.

If, for example, the project is working in different horticulture value chains that are increasingly negatively impacted by droughts, we can look at the supporting functions and rules that prevent the sector from adapting, such as the provision of stress tolerant seeds, crop insurance, and irrigation management training. An MSA could look for opportunities to build or strengthen market relationships between farmers and seed providers, or support insurance providers to develop appropriate coverage for at-risk farmers.

Objective 4: Promote a do-no-harm approach

In order to promote a do-no-harm approach, potential risks of negative environmental impacts

Read more: [“Market Systems Development and a Just Transition: Learnings from a Market System Analysis experience in Tanzania”](#).

deriving from sector growth need to be identified and managed. Typically, risks posed by sector growth are assessed, and if identified, measures are put in place to eliminate or, if not possible, reduce and mitigate such risks. If promoting a do-no-harm approach is the objective, then the sector selection process should have already undertaken elements of this type of risk assessment and recommended a sector for which there is potential for growth without increasing its environmental footprint. The MSA, therefore, should focus on opportunities for sustainably managing these risks.

► Box 21: Considering gender related risks

Women may be less visible in some value chains than in others and the effects of change are not always obvious. Projects need to consider whether any gender-related risks may unintentionally create or exacerbate negative impacts.

These risks can manifest at the level of ‘access to resources’; particularly where men are absorbed in higher status and better paying activities in the value chain; while women remain in unpaid, low-paid and unskilled work. Here, increasingly only the quantity of sector growth may lead to reinforcing women’s limited access to information, services, technology, training, business linkages and markets. Women may also be displaced from existing economic activities by men who make use of their control over land, other assets and access to services to take up new opportunities.

Quality growth would, on the other hand, remove or lower the barriers to entry for women to access opportunities arising from value chain upgrading.

Risks may also occur with regard to the agency women have to act upon the acquisition of those resources and to influence the systems in which they live. Women’s workload, for instance, which includes domestic and care work, may increase disproportionately, with little or no improvement in returns. This can have a negative impact on women’s empowerment, child care, health and nutrition, and increase child labour and reduce school attendance. Workload and incomes might increase, but women might also have no say over how income is spent. These risks can be avoided or mitigated by integrating a gender analysis in the assessment stage.

Read more: [“Child’s Play. The case for developing childcare services to boost women’s economic empowerment”](#).

Step 4: Analyse constraints

Once a relevant supporting function or rule has been identified, they then need to be investigated as systems in their own right.

For instance, if tourism SMEs face a constraint finding sources of capital to grow their business, we need to then investigate the access to finance function. Access to finance therefore becomes an important ‘connected’ system that projects need to understand in order to improve the tourism value chain. This involves looking at the supply of and demand for financial services; who provides the services; and what important functions and rules are under-performing. Constraints identified in finance are termed systemic constraints – it is these deeper, system-level problems that are the eventual focus of facilitation activities (See Chapter 4). It could be that financial service providers lack knowledge about the viability of the SMEs market segment (an ‘information’ constraint); or that current due diligence requirements make it difficult for banks to lend to higher-risk SMEs (a ‘legislation’ constraint). This is an example of ‘unconstrained’ analysis that often involves more detective work – and can take unexpected turns in any direction!



How far to go?

It is important to note that there are no clear limits in this diagnostic process of moving from one system to another in order to understand the more systemic constraints; however, as mentioned before, it is advised to take the project’s capacities and resources into account and reconsider the project’s ambitions in the research. This is important to avoid ‘paralysis by analysis’ where a project spends too much time behind a desk researching, at the expense of real-world implementation. Often projects learn fastest through their own experience – using the ‘do-measure-learn-adjust’ mantra of adaptive management (see Chapter 4). This means doing a ‘good enough’ initial analysis, then running small interventions, and then revising them based on evidence of what is working and what is not.

To analyse supporting functions and rules, projects need to ask: *Which actors set and enforce the rule or provide the supporting function?*

This involves analysing the capacity and incentives of market actors to perform functions. Both the ‘will’ (incentives) and skill (‘capacities’) of actors shape what they do and how well they do it. Understanding incentives and capacities is therefore key to identifying underlying causes of low performance of rules and supporting functions.

Incentives are the reasons market actors do what they do. The most powerful incentive in the private sector is usually profit (the ‘bottom line’), but incentives can also include reputational concern, winning votes from the electorate, a sense of obligation to certain groups, fulfilling an organisation’s mandate, or social and environmental responsibility.

Understanding what drives behaviour helps identify why market actors are under-performing in functions or rules. But even if incentives are there, market actors may not have the capacity to act on them. Knowledge of both market actor incentives and capacities is required for projects to explain why constraints exist and therefore why the target groups have been unable to take advantage of value chain opportunities open to others. This is another important factor in understanding market systems and designing interventions.

It is also useful to bear in mind that the key components of capacity are:

- ▶ Financial
- ▶ Management and human resources
- ▶ Technical knowledge and skills
- ▶ Physical structures, assets and outreach
- ▶ Vision, governance and networks
- ▶ Ethos, attitudes and leadership

In assessing the performance of supporting functions or rules, this may be categorized as ‘inadequate’, ‘mismatched’, or ‘absent’ (see Box 22).

Step 4 should end with a hypothesis about why the functions or rule is under-performing, with reference to both the incentive and capacity of key market actors.

► Box 22: Levels of performance

The M4P Operational Guide outlines three ways in which rules and supporting functions may be under-performing:

Inadequate: the market actor(s) involved are suited to the role, but they do not have sufficient capacity or incentives to fulfil it and improve their performance. One example would be a Ministry of Labour with little capacity to enforce the labour code.

Mismatched: the market actor(s) involved are not suited to the role, and are unlikely to have the capacity

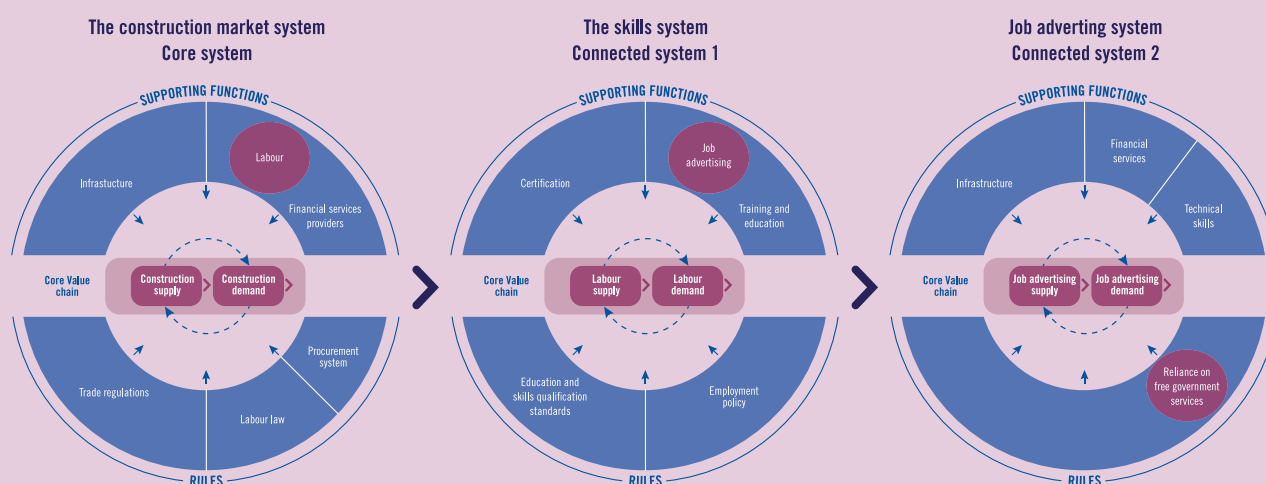
and incentives to fulfil it and improve their performance. Ministries setting up micro credit “schemes” are a common instance.

Absent: a function or rule is missing because there are no capacities and incentives for any market actor to provide it. For instance, services to improve Occupational Safety and Health may be missing because enterprises are unaware of their importance for their performance and, given the lack of demand, no supply has developed.

► Box 23: Constraints analysis: An example

In this example, one of the main ‘constraints’ identified for small construction companies is the lack of skilled workers. By analysing the supply and demand for skills as a system in its own right (**connected system 1**), the findings show one of the main constraints is that flows of labour market information are very poor. Specifically, the intermediation function between supply and demand is performing such that job opportunities are rarely filled by qualified job seekers, which remain unaware of vacancies and so do not apply for them. By asking why information about potential job opportunities are not reaching potential employees, once again, we need to look at the related supporting function (job advertising) and the market

actors that are currently performing them. By further analysing the job advertising function (**connected system 2**) it is found that although this is a key pillar of the government’s active labour market programme, the function is poorly performed by only one public employment agency (PEA), mostly under-staffed and under-funded,. Furthermore, existing private employment agencies rarely focus on the construction sector as this has been traditionally dominated by the public sector. There is an under-appreciation of the potential economic gains for private agencies to engage in this activity (systemic constraint 1), as well an insufficient emphasis on capacitating the PEA in the national employment strategy (systemic constraint 2).



Step 5: Develop a systemic change vision

The previous steps will have identified a number of underlying causes of low performance in the value chain. However, projects have limited time, resources and capacity available, so it is essential to prioritize which underlying causes the project will aim to address. Prioritization ensures that the initiative remains realistic and focuses on the project's overall goals.

A validation workshop with main stakeholders can help provide confidence in the quality of analysis and ensure project start off on the right track. Validation should always involve the project team, and the participation of stakeholders such as the donor, government, social partners and other local stakeholders. See Box 24 for guidance.

Change occurs not only by solving problems but also by embracing opportunities. The final part of the MSA should therefore be developing a credible vision for how the market system will continue to work better for target groups after the project has ended.

This is a critical final part of the analysis; but a systemic change vision does not have to be too detailed: a short paragraph or narrative summary can be included at the end of the report. It should specify 'who' are the market actors that need to play new or improved roles; 'what' specific behaviours or practices need to be introduced, and 'how' these might come about, with reference to changing the incentive or capacity of the actors. It should also show how the vision aligns with the broader strategy

► Box 24: Running validation workshops

For validation to be effective, it is crucial to involve a combination of stakeholders who possess the necessary knowledge to identify errors in all relevant components of the market system. Market actors who showed good knowledge of the market system during the data collection phase can be good candidates. Once the right actors are present, the key questions that need to be asked are:

- Are the findings and conclusions of the research correct?
- Have any relevant details been missed by the research?

When planning and facilitating the workshop it is important to ensure an environment is created where participants feel comfortable to identify issues with the research.

Would addressing the systemic constraint benefit the target groups and address the initiative's goal?

- What would be the scale of the likely impact of addressing the constraint?

- Is this bigger or smaller than the impact of addressing other constraints?
- Would addressing this cause benefit one or a few enterprises, or have an effect throughout the value chain?
- Could a solution to this problem become part of the way the market system operates?
- Is it possible to address this cause without solving another, deeper lying problem first?

Is change feasible?

- Is the project duration and financing sufficient?
- Is the project's organizational capacity sufficient?
- Do market actors have sufficient capacity and incentives to make change happen?
- Are vested interests likely to inhibit positive change?
- Are there any other factors that pose a high risk to successful change?
- Will the intervention lead to increased risk of negative net impact on the environment?



Managing participation

Participation of market actors in setting the vision for the new market system needs to be managed appropriately. On the one hand, it can increase buy-in, which is essential to the achievement of planned changes, and provide an invaluable ‘reality check’ on the feasibility of changes, because market actors may identify critical issues that project staff are not aware of.

On the other hand, the process of creating a vision for the future market system may be a lengthy process, so it is often best to engage participants in short bursts where their input is essential and decisions are made. Change is often politically-loaded, and there may be

powerful vested interests that need to be taken into account. For example, different groups may have strong opinions of what value chain changes would ‘be best’ to bring benefits for their own members – but that may not bring collective benefits to all stakeholders. Project perceptions of what may be ‘win-win’ outcomes are, by definition, subjective, and the vision for change not shared by all stakeholders.

Nonetheless, good analysis should identify these entrenched power relations that might create barriers for change. The validation and participation process itself can help uncover such ‘political economy’ factors.

for the sector, such as those articulated by local or national governments or industry bodies. The validation workshop provides an opportunity to get buy-in from key stakeholders on the systemic change vision, and ensure this complementarity.

For example, if the constraint is that small factories have outdated and unsafe equipment because financial service providers do not see SMEs as a viable market segment (an ‘information’ constraint); a systemic change vision may be “Local banks increase their provision of credit and capital expenditure lending to SMEs, based on a better understanding of both the risks and opportunities of serving smaller enterprises; as banks are able to access data and information on client profiles and therefore calculate likely default rates”.

At this stage, the answers to the ‘Who?’ questions can be stated as types of market actors. So, it would be sufficient to record ‘Agricultural input dealer’, rather than having to specify ‘Company X’. Also note that the vision of the future market system is not a description of what the project will do, but of what market actors will do. The project plays a temporary facilitation role (it is not a market actor!) so cannot be part of the future vision. Continuing the example from the previous paragraph, this would mean a systems change vision should not be based on the project continuing to support local banks – but local banks being able to offer services independent of project support.

Step 5 should end with agreement on a limited number of systemic constraints which the project will seek to address, and corresponding systemic change visions for each constraint.

► Box 25: Is your vision credible?

It is easy to populate a sustainability vision with groups of market actors who would hypothetically be willing to carry out a role. But for the changes to be achieved, they must be feasible in reality. Questions to assess feasibility are outlined below:

- Are the incentives to make the change big enough for market actors?
- Do market actors have the capacity to make the change?
- Are there any factors which might jeopardize achievement of the change?
- Can the change be achieved within the project time-frame?

The vision for the new market system will almost certainly involve actors playing new roles. For example, an actor might start providing a supporting function, such as selling improved inputs, which was previously absent from the market system. Market actors will not take up new roles unless they are profitable. As such, when planning such changes, we must ask:

- Would actors be willing to pay for the new product or service?
- Would selling the new product or service be sufficiently profitable?

If businesses cannot realistically be expected to pay for the product or service, or if it is not profitable to sell it, then the vision of the future market system is not viable.

3.2 Managing the process

A Market systems analyses require a considerable amount of process management, in addition to technical skills. Before starting an analysis, it is therefore important to develop a research design or plan specifying the objectives, research questions, methods and sources of information. The key tasks are to:

- 1 Develop a costed research plan with a clear timeline
- 2 Assemble the research team, blending expertise in systems thinking with sector-specific knowledge

The ILO has put together a comprehensive [User Guide](#) on how to carry out the end-to-end process of a market systems analysis. The focus of this short guide is on the practical aspects of the MSA process, including how to manage its component parts - such as finding a good consultant or understanding how to orient your research questions.

It is important to highlight that in reality the MSA is a dynamic and iterative process, which is rarely carried out in discrete steps – or along the lines of more ‘traditional’ academic research. In particular:

- ▶ Data collection and data analysis often take place in parallel
- ▶ Data analysis will often generate further research questions. For example, it may identify new market actors to research, or it may generate further questions which need to be answered in order to identify underlying causes
- ▶ Value chain mapping may already have started in the sector and value chain selection process. Development of the map typically continues throughout the research process and refinement may continue throughout the project
- ▶ The generation of ideas for interventions often starts in the analysis phase and intervention design may necessitate additional research

▶ Box 26: Research methods commonly used in market systems analysis

- Secondary sources, such as industry journals, market research or previous value chain analyses
- Interviews and consultations with market actors such as lead firms, government authorities, business services providers and women's associations
- Focus group discussions and mini-workshops with groups of market actors that are easier to organize (e.g. small producers, SMEs or local service providers, women and men entrepreneurs)
- Observations of business practices and transactions (e.g. workplace conditions, labour productivity, environmental practices etc.)
- Surveys to obtain more quantitative data, for instance on prices, productivity, use of inputs.

Having decided on methods, specific instruments will have to be selected or developed, such as interview schedules, questionnaires, formats for workshops, etc. This will ensure that information is relevant to the research questions and is consistently collected by all team members.



Tip

Remember to keep methods flexible enough to continue asking ‘Why’ and to explore complexities. Some themes may be difficult to research by approaching market actors directly. For example, market actors may not report honestly about their incentives. As such, it may be necessary to consider alternative

sources of information. Moreover, in the case of incentives, it may be useful to ‘triangulate’ what people claim with their actual actions and with information from other sources (e.g. employees, former employees, competitors, sub-contractors and media analysts).

Analysis should be managed by a team leader from the project, preferably a senior staff member who will play a significant role in the project's implementation. In addition to project staff, it is important to consider whether staff from other organisations should form part of the market systems research team. The main options are detailed below, together with considerations related to each.

Co-facilitators

One option is to involve a local organization, such as a civil society actor which is familiar with the value chain, to collaborate on research and analysis. This can increase local ownership and may result in the collaborator or co-facilitator continuing a facilitation and development role in the sector beyond project involvement.

Choosing the right organisation is crucial. It should have a relevant mandate and capacity, a good track record and credibility. It should, however, not be market actor, as this would be a conflict of interest. Facilitators should stimulate changes in the market system that benefit other market actors, not themselves.

Consultants

Technical experts can bring in key knowledge and skills. However, by taking the task of collecting and analysing data out of the hands of project staff, an opportunity for learning about the market system will be lost for project staff. Equally, if consultants are responsible for the first engagement with businesses in the sector, a valuable opportunity for relationship-building may also be lost. Consultants may also dominate and steer mapping and analysis exercises down routes they are most familiar and comfortable with.

When tasks are contracted to consultants, it is important to pair them with project team members, train them and provide them with TORs that clearly specify the questions the team want answered.

Representatives from public agencies with a shared mandate

Such representatives may include local development authorities, Chambers of Commerce or export development boards. A key issue with including these actors in the research team is that they may be responsible for providing rules or supporting functions, which may affect their capacity to reflect objectively on their own performance.

Both in the course of sector selection and market system analysis, it is important to ensure that gender- and environment-related stakeholders are included in the research process. Depending on the context, these may include organic farmers associations, environmental NGOs, government agencies with an environmental mandate, eco-certification bodies, suppliers of environmentally friendly agricultural inputs, and others. The inclusion of environment-related stakeholders in the research process will enable the surfacing of environmental concerns and opportunities. The research process should also involve speaking to both women- and men-owned business and women's associations.

As a general rule of thumb, it is good to budget around \$30-40,000 USD for the entire end-to-end MSA process.³⁰ Depending on the sector complexity, geography and programme size, an analysis can take between 6 weeks and 3 months.

³⁰ Cost estimate based on the experience of the ILO Lab project; this includes consultants fees and staff backstopping time; travel and mission-related costs; and translation, design & publishing of reports



Core competencies for strategy-setting and sector selection

Projects need to draw on a wide range of expertise in order to understand what are often dynamic and complex value chains. For a successful market systems analysis, high-performing project teams exhibit the following knowledge, skills and attitudes:

- Systems analysis – The ability to understand value chains and their role in poverty reduction from a systems perspective
- Integrating sectoral knowledge – Knowing how and when to get help from sector experts to improve analysis and strategy

- Knowledge synthesis - The ability to do background research, interrogate data and summarise findings cogently
- Critical thinking, foresight and vision - Actively make and challenge assumptions
- Communication - Deliver effective reports and presentations that cater to specific audiences

The BEAM Exchange includes detailed guidance – including case studies, teaching materials and example interview techniques – for each of the above competencies.



Further reading

Guidance:

- [Market Systems Analysis for Decent Work: A User-friendly Guide](#)
- [BEAM Exchange: Market Analysis](#)
- [Marketlinks Value Chain Analysis](#)

Examples:

- [Creating shared value in the Dominican Republic banana industry](#)
- [Rwanda: Laying a foundation for better working conditions in the construction sector](#)
- [Accelerating tourism's impact on jobs](#)
- [Getting Africa's youth working](#)
- [From Obligation to Opportunity - A market systems analysis of working conditions in Asia's garment export industry](#)

4 Action: Intervene to improve value chain performance

Summary

This final chapter covers the implementation phase, where projects aim to help introduce new practices, behaviours and products. It explains how projects usually partner with a small number of actors to test out these new ways of working and, if successful, then look to others to copy and 'crowd in' around the innovation to bring about systemic change.

Learning objectives:

- Knowledge on how to design interventions that can lead to systemic change
- Is able to deploy a flexible, adaptive and evidence-based approach to implementation which leads to real-world change

Key steps:

- Design interventions
- Shortlist possible partners, based on assessing their incentive and capacity to change
- Reach an agreement with partners on duration, scope and nature of project support
- Pilot interventions and monitor progress, adjusting accordingly
- Take actions to crowd-in other actors beyond the initial partners, and measure results

Traditional development projects tend to orient their interventions towards the question of "what problems do focal value chains have and how can we solve them?" rather than focusing on "how can we help value chain actors solve the problem themselves?"

A systems approach opts for a 'light touch' way of intervening. It carries out activities designed to support market actors taking on new or improved roles, which in turn leads to the creation of more and better jobs. The aim is for these behaviour changes to continue long after project support has ended, driving sustained improvements in decent work that can even scale-up over time.

4.1 Implementation process



Step 1: Design interventions

At its heart, market systems interventions are very simple: Provide temporary support to market actors that lead to lasting improved decent work outcomes. In practice, because there is no one single way to bring about behaviour and practice changes in these market actors (there is no step-by-step methodology or one size fits all 'fix' favoured by many development projects – remember the PlayPump example from the Prologue?), it can be hard to grasp the nuances and navigate the inherent flexibility of the approach. This chapter therefore uses the real-life example first introduced in the other story in the Prologue – Abdullah's sick sheep – which is based on the ILO's Road to Jobs project in Afghanistan.

First, an 'innovation' has to be introduced into the system. An innovation is centred around a value chain upgrading strategy: A new or improved behaviour, practice or technique adopted by a market actor as a result of programme intervention that improves overall sector performance (growth, competitiveness) in a way that delivers the intended outcomes for target groups.

It is important to note that innovations can take a wider variety of forms. They may include innovations in rules, such as new regulations or standards. They may also include innovations in supporting functions, such as coordination or provision of information. Innovations do not always have to be new – in the sense of a new product or service – they can be adaptations, improvements or tweaks to things that organisations are already doing.

Road to Jobs, for example, identified the innovation as improved para-veterinarians knowledge on how to diagnose livestock diseases and administer the right medicines - in order to reduce the mortality of animals. Examples of other system innovations are set out in Boxes 31 and 35.

There is no one way to identify such innovations. And there will be no single 'silver bullet' innovation that can bring about systems change – particularly one that can be easily identified in advance. Projects need to pay careful attention to the topic of value capture – and ensure that upgrading strategies being pursued do not simply reinforce existing inequalities (see Box 27).

► Box 27: Value capture and 'sharing the gains'

There are many scenarios for value chain upgrading. One common strategy is to achieve "value creation", i.e. higher sales volumes and/or prices – as a consequence of product improvement or cost reduction. Depending on the place in the chain where new value is being created, the distribution of the value-added changes. If, for example, as a result of project support, traders manage to obtain higher prices by improving their marketing strategy, value is being

created. The question is who receives ("captures") the value-added. Since traders have to pay more to the product makers, part of the value-added will go to the manufacturers. Product makers may have to purchase more, or more expensive, inputs, and this in turn shifts some value-added to input providers. Producers, such as smallholder farmers – who will often be the project's target group – need to see a fair share of the gains of this value creation.

Projects play a 'facilitation' role. This means they act as external agents, seeking to catalyse change within others in the market, while avoiding becoming part of it themselves. The idea being that "sustainable solutions" do not need project funds to continue working. The activities that projects undertake to encourage partners to change may be varied – from using 'soft' tactics such as advice or brokering relationships to 'harder' tactics like financial cost-sharing (Box 28 lists a range of facilitation options).

Road to Jobs did not directly train farmers on animal health: while this would have provided a 'quick hit' of measurable impact –it would have been short-lived. Who would have continued to train the farmers after Road to Jobs ended? Neither did the project go straight to training para-vets: Otherwise Road to Jobs would have to train each para-vet in the country in order to reach scale. Instead, the project focused on the 'function' of para-vet training and asked which local actor plays this role in the system. As a result, they worked through the Afghan Veterinary Association (AVA), supporting them to conduct a training needs assessment and design their own training programme.

The overarching aim of a facilitative methodology is to build local ownership of the interventions and to ensure maximum sustainability and scale. In practice it means that any kind of support is possible as long as this stimulates systemic change.

In order to identify system innovations, projects can look to:

- ▶ Innovations already taking place in a limited number of enterprises in the target market system
- ▶ Ideas generated by businesses in the target value chain or broader market system
- ▶ Innovations already taking place in similar market systems
- ▶ Innovations in other value chain development projects

Box 29 lists a set of questions that projects can use to 'sense-check' any innovations that they are thinking of supporting.

► Box 28: What activities do projects using a systems approach actually do?

Projects can use a flexible range of tactics which are a best fit to the context and support that partners require. These tactics can include:

Sharing research, information, advice to bring to light the opportunities and potential incentives for project partners to adopt new ways of working:

- Market analysis
- Research and information on new products, services, or technologies
- Access to information on international practice, e.g. how innovations for certain services work in other countries, including through learning visits
- Assessment of regulatory impact for planned or existing 'rules'
- Sharing the success of an innovation to encourage other actors to copy it

Providing technical assistance:

- Development or review of business strategies, plans, manuals, contracting arrangements, services, policies and rules, and performing capacity assessments and capacity building for actors in the sector
- Tailored training schemes, for example 'training of trainers' or institutional support to design and deliver new training by a professional body
- Strengthening or helping form Business Membership Organizations, clusters, or cooperatives
- Supporting market actors to plan and deliver new products, services and business practices

- Provision of continuous strategic and technical advice, coaching and mentoring, while an intervention is ongoing

Making linkages, coordinating, and bringing market actors together:

- Facilitation of linkages and relations between market actors; sharing information about new funding sources, new markets, new input suppliers and international market actors.
- Establishing a formal or informal coordination mechanism between market actors, or facilitating open dialogue and collaboration.

Co-investment with the partner:

- Providing grants or 'soft' capital in the form of a loan or concessionary finance to pilot new ways of working or to de-risk innovation.
- Cost-sharing key staff positions in partners
- Seconding or providing project staff on a short-term basis, for example embedded in a government agency

Development 'tools' such as standardised training programmes like Start and Improve Your Business (SIYB) can be useful in the systems approach, but the process of designing and implementing projects needs to start with the market systems approach, and addressing the underlying causes of systemic constraints; it should not start with, or be led by, the tools themselves.

An intervention is then designed in order to stimulate market actors to adopt these innovations. Box 30 sets out environmental considerations for project design, while Box 31 profiles the design of a youth employment intervention in Zambia. At this stage, only the interventions for initial pilots are designed in-depth. The task of the pilot phase is to test different innovations; and rapidly learn which are gaining most traction. However, the potential scale strategy should be considered, in order to ensure the pilot – if successful – has a viable pathway to scale. If a pilot is successful, further interventions will be rolled out to stimulate uptake of innovations among other market actors. A project may be also implementing multiple interventions at the same time in order to bring about systemic

change. Indeed, in almost every instance, it is not enough to run one innovation - but experience shows it is the sum of interventions in a specific value chain which in the end brings scale and lasting change. An ILO study on the Alliances Caucasus Programme (ALCP) showed the impact of a set of market systems development interventions on informality and working conditions in Georgia's dairy sector, which included improving the regulatory environment, strengthening market demand and ensuring access to information and services for farmers.³¹

³¹ Read more: Better cheese, better work: The Alliance Caucasus Programme's Impact on Informality and Working Conditions in Georgia's Dairy Sector https://www.ilo.org/empent/Publications/WCMS_747034/lang--en/index.htm

► Box 29: Will the intervention work?

Feasibility of innovation

- Are the incentives big enough for actors to adopt the innovation?
- Do organisations have the capacity to adopt the innovations?
- Are there any factors which might jeopardize the adoption of the innovation?
- What assumptions are made when predicting that the adoption of the innovation will achieve/contribute towards the planned changes for the broader market system? Does evidence suggest these assumptions are plausible?

- Is it realistic that the innovations will be adopted within the project timeframe?

Risks

- Is there a risk that adoption of the innovation would have negative impacts on gender dynamics, working conditions or the environment?

Tip: Look back at Chapter 3, Step 4 to learn about the range of incentives that might be driving the behaviour of market actors.

Once there is an initial idea for an intervention, the step-by-step process of the intervention is often documented through developing a results chain. Results chains are a visual tool to show what the programme is doing and why. They illustrate the chain of successive changes that link programme activities with intended outcomes and impacts.

Results chains can be drawn at any point in the intervention design process. Indeed, it may be a useful tool

to assist project staff with thinking through how one change will lead to another and for testing assumptions. Ultimately, there should be a sound 'theory of change' for how all the supported innovations will collectively lead to sustainable change in decent work outcomes for the target group(s).

Step 1 should end with interventions that respond to the systemic constraint(s) identified during analysis.

► Box 30: Integrating environmental objectives into intervention design

Interventions designed to improve a value chain's environmental performance may directly contribute to improving its economic performance—such as introducing stress-tolerant crops that yield better harvests (adaptation), or facilitating greater energy efficiency that produces cost-savings (greening), resulting in a 'win-win'. A number of projects are now seeking to jointly advance environmental and socio-economic objectives (particularly employment), and are profiled in the publication 'Market Systems Development and the Environment: A Strategic and Operational Guidance Note'. This includes projects aiming to:

- Increase incomes and decrease greenhouse gas emissions (GHGs) by supporting adoption of more energy efficient brick production practices and technologies
- Increase incomes and create jobs while supporting adoption of greener and more climate resilient agricultural practices and inputs

- Increase incomes and create (green) jobs by supporting adoption of greener construction materials and practices
- Grow the renewable energy sector and improve access of poor households to energy
- Grow the waste management sector and increase incomes among waste management market actors and create green jobs.

However, in other cases this immediate link might not be so apparent in the short-term. A project would then have to consider how strongly it prioritizes its environmental objectives in relation to other objectives, like jobs and income. In any case, interventions that have the potential to 'do harm' – such as increasing the uptake and uncontrolled use of environmentally-damaging and harmful chemicals, for example, should be avoided.



► Box 31: Intervention spotlight: Last mile distribution

Programme: Yapasa

Country: Zambia

Sector: Agriculture

Implemented as a UN Joint Programme by the ILO and FAO, with funding from Sida

Systemic change vision: Market actors innovate commercially viable last mile distribution channels which can both generate youth-suitable jobs and meet the needs of smallholder farmer customers through improved availability, affordability and higher quality inputs.

System innovation: Yapasa supported independent agro-dealers to grow their input distribution network through Community Agro Dealers (CADs). The model

is built on the physical distribution and promotion of inputs. CADs act as sales agents, running marketing activities (such as demonstration plots), holding stock and selling on behalf of the agro-dealers, and are given a commission in return. Several input suppliers are also supporting the model through product promotion and CAD training.

What the intervention did: Yapasa advised agro-dealers on strategies to identify and select CADs. The project cost-shared a) the training of CADs on product knowledge, which was carried out by the input company, b) the running of regular farmer field days as a promotional activities, c) motorbikes for agro-dealer extension officers for monitoring and d) lunch allowances for Ministry of Agriculture staff involved in field days.

Step 2: Finding and engaging partners

Piloting requires partners. These partners can come from the public, private or civil society sectors and are the ‘early adopters’ who you can work with to test whether the innovation is likely to be feasible, and lead to benefits for target groups. Partner selection is best carried out through a series of informal consultations with potential partners in which the project:

- ▶ Presents and discusses the proposed innovation to obtain feedback and gauge interest
- ▶ Establishes possible partner constraints, in terms of capacity, incentives, potential blockages, risk averse managers, and lack of willingness to invest
- ▶ Clarifies the project role in supporting the innovation as well as the partnership expectations

When selecting partners, it is crucial to again consider their capacity and incentives to take on an innovation, because this can have a major influence on the outcomes and sustainability of the project. The ‘Will-Skill’ framework is one tool which can assist tailoring support based on both the incentives (‘will’) and the capacity (‘skill’) of market actors. This framework, developed by The Springfield Centre, then suggests broad strategies for supporting types actors based on their will/skill classification (see Box 32).

The reasons why a partner has an incentive to adopt an innovation may not be immediately obvious. Incentives may be ‘hidden’ or hard to understand, especially in public institutions where there is no ‘bottom line’ business case to be made. For example, local authorities with a local economic development mandate may have strong incentives (mandate, votes) to improve the local economy, and may have some programmes in place. Here, an innovation should be aligned to these incentives – better delivering their mandate or improving

their constituency’s perception of their work. The type of partner selected can be guided by the incentives in Box 33.

To improve livestock health outcomes, Road to Jobs partnered with the Afghan Veterinary Association (AVA) – a typical example of a ‘low capacity, high incentive’ partner explained in Box 32. For years, the nation’s animal health needs had been mostly funded by the government. Over the past three decades, however, government support has become increasingly limited. The AVA was formed in 1996 as a buying and distribution cooperative to pick up where the government had left off. Rather than relying on payment from the government, members of the association adopted a fee-for-service model, marking the beginnings of private veterinary practice in the country.³² The AVA had a mission to professionalise Afghanistan’s vets, and a strong incentive to provide value-added services to drive up membership.

Other important issues to consider when selecting partners are their capacity to adopt an innovation. This can be framed in terms of human and financial resources, networks they can draw on, and the dynamism of their management. Weak capacity will also have implications for the intervention, for which more capacity building will be needed.

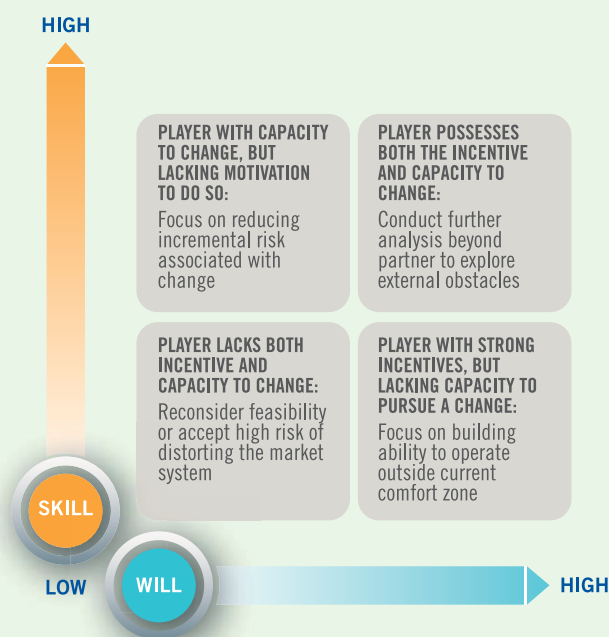
And in order for any successful pilots to scale; it is important to understand the partner’s market power: especially with regard to their market position, or size. This is important to determine ‘scale strategies’ and the extent to which success with the partner is likely to be copied by similar market actors (see Step 4).

Step 2 should end with identification of initial pilot partner(s) and agreed-on areas of support or collaboration.

³² The description of AVA in this paragraph is taken from: <https://www.avma.org/javma-news/2007-11-15/afghan-veterinary-association-finds-its-way>

► Box 32: Assessing the 'Will' and 'Skill' of possible partners

Figure 6. The "Will-Skill" framework



Source: M4P Operational Guide

High will, low skill scenario: Support should strengthen the partner's capacity. Specific interventions could be training, advice or mentoring.

Low will, high skill scenario: Support should focus on convincing the partner about the benefits of the change or reducing perceptions of risk associated with the change. Specific interventions could be undertaking joint research to build understanding and grow evidence base or sharing the costs of a pilot in order to reduce risks to the partner and build confidence in the innovation.

Low will, low skill scenario: If potential partners lack both incentives and capacity then ideally the project would not work with them. However, in some sectors they may be the only option. In this case, interventions should aim to provide intensive support which increases both capacity and incentives, while accepting the risks involved.

High will, high skill scenario: if potential partners have both the incentives and capacity to change, we must ask why they are not doing it already? It may be the case that factors outside the partner's control - such as the regulatory environment - are responsible. In this case, it will be important to identify the factors which are responsible and respond accordingly.

► Box 33: Selecting a partner based on their incentives

- **When there is significant market pressure:** If pressure is the key incentive for improving decency of work, firms close to the market (e.g. large international buyers) are the preferred partner option. This pressure may arise from reputational risks (e.g. not wanting to be exposed to negative publicity), from the public (e.g. consumer and NGO campaigns) or from investors (e.g. shareholder demands for more responsible and sustainable business practices). Lead firms experience the pressure directly and are in the best position to influence their suppliers at scale. However, not all such firms are willing to take the lead in such cases. Working with groups of firms, or in conjunction with other market actors such as employers, unions and Ministries of Labour, is often more effective.
- **To improve productivity:** If productivity improvement is the key incentive, partnering with firms to run pilots that demonstrate the link between working conditions and performance may be a strong option. Employers organisations can play an important role in scaling up innovations. Training providers and consultancy firms are the most likely partners for developing services. Where they have national scope, they could also function as scale agents.
- **To improve legislation and enforcement:** where legislation and its enforcement is a main incentive, partners would be similar to initiatives to ensure market access. A project would lose the trust of the private sector by partnering one-sidedly with agencies tasked with enforcement. Working with

tripartite partners that are relevant to the value chain and facilitating dialogue between them is more likely to yield results.

- **For greater gender equality:** selecting and coming to an agreement with the right partner also has an impact on gender. Greater gender equality by itself is unlikely to be an incentive for most market actors. As such, selecting a partner which aims to promote gender equality as a goal can overcome possible difficulties in demonstrating a business case in the narrow sense. Such partners might include women's associations, cooperatives, networks, women's

business associations, or Ministries for Women's Affairs. Here too, key considerations are the scalability and whether working with such organisations will lead to an innovation becoming a 'new normal'. In some situations, it may be counterproductive as market actors may consider women's organisations to be marginal which may affect the potential for market take-up. In other contexts, where the presence of women in a value chain is pronounced at different levels, and gender segregation is strong, working with partners such as these, or even facilitating their establishment is more likely to be effective, or even the only possible strategy.

Step 3: Run initial pilots

A pilot then involves the project carrying out specific activities – or supporting partners to carry out activities themselves. Since facilitation is an art more than a science – and does not just involve rolling out 'off the shelf' tools – it can sometimes be hard to grasp. And this is both its weakness, and its strength. Anything is possible with facilitation - from 'hard' tactics like cost-sharing to 'softer' tactics like brokering relationships - as long as you stay true to your vision about developing a more efficient and inclusive system that benefits the poor and that does not have to rely on continued external support.

But with more experience and understanding – of the sector and country in question, as well as in the market systems approach itself – projects can make better decisions. The trouble is, in the real world there are few second chances: First impressions stick, wasted money cannot be clawed back, and blown credibility is difficult to rebuild.

The good news is that facilitators stand a better chance of making better decisions if they learn from what other projects have done - both their successes and failures. Over time, this experience has informed a body of practice that has led to a number of 'rules of thumb'. The six principles of facilitation are outlined in Box 34.³³

During their pilot intervention, Road to Jobs supported the AVA to train owners of small retail shops who did not have any veterinary background, but were already selling animal health treatments. 18 shop owners then became qualified 'paravets' and increased farmer access to animal health services. Road to Jobs provided a mix of financial assistance (cost-sharing of activities) and technical assistance. Box 35 profiles another intervention 'in action' from Road to Job's work in the dairy value chain.

Step 3 should end with learning from pilot intervention whether to pivot strategy (see step 5) or proceed with scaling (step 4).

³³ These have been adapted from Engineers Without Border's 'Principles of Facilitation'

► Box 34: Principles of facilitation, by Engineers Without Borders

Visibility



Underplay donor and project branding in the marketplace. High visibility leads to dependency and creates expectations that a facilitator is in the driving seat. Lower visibility makes it easier for your partner to own the change and for the impact to sustain over time, after you leave. Keeping your visibility low will also enhance the responsibility and ownership of your partner over their decisions.

Ownership



The overarching aim of a facilitative project is to put capable and incentivised local actors in charge of the change in order to ensure maximum sustainability. This requires making sure from the outset of the project that the partner leads on developing and implementing new business practices and ways of working, while the project plays a supporting role. Different strategies can promote ownership: working with a local partner, involving local actors in decision-making, having partners pay for most of the costs.

Making a clear offer



Clearly explain to your partner what the goal of your project is, and why working with you can mean good business for them. You don't need to do this when you first meet your partner, but it's important to give details on the type of partnership you want as soon as possible.

No free lunches



Offer financial assistance reluctantly, and do not make it too easy to get your time and resources. Try to push your partners to become the leaders of the change by building an incentive system that will reward their performance.

Influence points



Early adopters and innovators are likely to have incentives to try something new and take risks. Try to show your partners how they can reap early-adopter benefits. Working with actors that others in the market look up to is also important to reaching scale. Ultimately, the change needs to spread!

Lines in the sand



Be clear from the beginning about your intentions and expectations with your partner. This applies to ethical standards, roles and responsibilities of each party, terms of engagement and possible collaboration with other (competitors) in the industry.



► Box 35: Intervention spotlight: Supply chain management

Programme: Road to Jobs

Country: Afghanistan

Sector: Agriculture

Implemented by the International Labour Organization (ILO) with funding from Sida

Systemic change vision: Improved market infrastructure allows dairy producers to expand beyond local consumption and access higher value markets which can boost incomes and create jobs

System innovation: Road to Jobs is supporting a dairy processor to train farmers in the good practice of dairy production methods to ensure a high-quality supply of milk. Milk Collection Centres give farmers the opportunity to sell their milk to factories who then process the milk into dairy products. Three centres (each with a catchment area of 5-10 villages) collect farmers'

fresh milk on a daily basis. Road to Jobs has also supported end market and product diversification to boost demand for fresh and processed milk.

What the project did: To stay true to the principles of facilitation, Road to Jobs was unwilling to support the costs of building new milk collection centres as they wanted to back commercially sustainable strategies that build off of real business incentives - rather than funding 'white elephants' that may not function in the future. The project therefore picked up the costs of building the supply side capacity, which primarily involved farmer training. On the demand side, Road to Jobs funded a technical consultant from Iran to advise the dairy processor on product development. Finally, the project is supporting the processor to obtain a Hazard Analysis and Critical Control Points (HACCP) Certification, which is crucial for access to export markets.

► Box 36: Designing interventions for circularity

The concept of the 'circular economy' is about minimizing waste and maximizing the use of natural resources. It is an alternative to the traditional, linear economy, in which we extract great quantities of natural resources to make products that we often just use once only to discard them to a landfill.³⁴ The concept of circularity can be considered in the context of any value chain by looking at the material inputs and outputs throughout production. At the input level, how are inputs being sourced / are they the end-product of another industry, and if not, are there opportunities for sourcing recycled inputs? At the output level, what inputs allow the product to be repurposed or biodegrade at the end of its life?

Say a project conducts an analysis of the footwear value chain and discovers that one of the primary inputs in the value chain is virgin rubber. It also finds

that the product usually ends up in a landfill after five years of use, where it takes over fifty years to biodegrade. In seeking opportunities to promote better circularity, the project can consider how the business model might adapt to incorporate recycled rubber into the value chain by looking at the existing supply of reusable rubber. Possible solutions may include sourcing spent car tires that also end up in landfills or introducing a take-back scheme from customers, so that the remaining rubber on shoes can be recycled. Also, with respect to end-life, for those product components for which there is no feasible opportunity to recycle or repurpose them, such as shoe soles and shoelaces, an analysis can look for opportunities to increase their biodegradability, so that there is less long-term or environmentally harmful waste.³⁵

³⁴ UN Department of Economic and Social Affairs

³⁵ The feasibility of replacing inputs will depend on a number of factors. International value chains may face additional constraints, since lead buyers may require strict specifications and may not be open to changes in raw materials.

Step 4: Embed systems change

If the initial pilot is successful, the challenge then is how to take the innovation to scale. How can the new or improved behaviour or practice become a 'new normal' in the value chain? This step involves revisiting the scale strategy designed at the outset of piloting.

It is important to underline that what is being scaled up is not the intervention itself (e.g. how can a project shift from piloting with 2 businesses to working with 100); but the behaviour or practice change (e.g. how can 100 businesses take up the new behaviour without the project having to work with all of them!). In a systems approach, there is a difference between taking an innovation 'to scale' and 'scaling up' a project.

Projects should not play a passive role and simply assume that once they have helped introduce a good idea into the system, then it will somehow organically and autonomously 'take off'. Instead, a series of follow-up interventions are required to cement lasting behaviour change.

If pilot partners were the 'early adopters', then getting the 'early majority' to take on a new behaviour is a much trickier task. A demonstration effect may well exist, but research from the world of sociology and economics shows that second movers can require as much, or more support, than first movers. Almost by definition second movers have lower capacity and higher risk aversion than first movers.

Strategies to move from pilot to scale will differ greatly, depending on the type of partners, market structure and wider socio-cultural and even geographic factors. The industry and country context has a significant influence on the ability of programmes to get to scale, and the timeframes required. Getting to scale is easier in countries with 'thick' value chains – where there are large actors, more networked economies and higher population densities – than it is in 'thin' chains.³⁶ It is also easier to get to scale in industries that are tightly networked, geograph-

ically concentrated, and have high market concentration (a large number of small actors).

Nothing remarkable happened in the first two years of Road to Jobs' veterinary services intervention. But in the third year, the innovation took-off: mortality rates reduced by 50% which resulted in about USD 1.17 million in additional income spread across 46,000 livestock farmers. It turns out that building trust between the paravets and farmers takes time, and, because the service was highly demanded and mutually-beneficial (farmers get services and paravets get paid), paravets had progressively increased their customer reach and diversified their services. Paravets adapted the model and began to deliver vaccines and treatments to remote areas through informal channels (mainly via people travelling to the villages) and to provide phone-based services on how to use them. Paravets also reported that other shops started to replicate their model and reached out to the AVA for training.



Tip

Projects need to have realistic expectations of probability of scale, and plan accordingly

It typically takes five years or more for interventions to reach scale – and build momentum towards systemic change. Some sectors such as agriculture may also have seasonal production cycles, which limit the speed at which innovations can be piloted. Donors need to consider this in designing programmes and setting milestones

In a typical programme, only a small proportion of interventions reach scale. Programmes therefore need to experiment with a wide variety of innovations early on, then double-down on those showing the most promise. Donors and practitioners also need a high tolerance for risk and failure.

³⁶ Source: Getting to scale: Lessons in reaching scale in Private Sector Development programmes by Gareth Davies. In investment terms, a 'thin' market is "...where limited numbers of investors and entrepreneurial growth firms within the economy have difficulty finding and transacting with each other at reasonable costs" (British Private Equity and Venture Capital Association 2009).

► Box 37: Potential strategies for scale:

The following strategies are adapted from: [Getting to scale: Lessons in reaching scale in Private Sector Development programmes](#).

Strategy 1: Achieve scale through big actors

The simplest strategy for getting to scale is to work with one or two market actors that by themselves have the ability to reach large numbers of poor men and women. At the start of the intervention, this means identifying and partnering with 'big actors' with deep pockets who are able to mobilise significant financial and human resources to develop and roll-out the innovation. These big actors may also already have extensive distribution or sales channels.

For example: The [Katalyst](#) project in Bangladesh worked with Syngenta to develop a new training focused on agricultural input retailers that eventually benefitted over 350,000 farmers.

Strategy 2: Work with 'first movers' to create a demonstration effect

Another commonly deployed strategy for getting to scale is to work with a small number of 'first movers' in order to demonstrate the viability of the innovation to other market actors. The hope is that this demonstration effect will then lead to spontaneous or

organic 'crowding-in' by other market actors ('second movers').

For example: The [Gatsby Foundation](#) developed the nursery sector for clonal eucalyptus hybrids in Uganda. There are now more than 60 additional nurseries that have established without the support of the programme.

Strategy 3: Actively support 'second movers'

If Strategy 2 fails to promote the desired crowding-in, the programme can provide more direct support to second movers. The aim is to either reach scale through a combination of the first and second batch of programme-supported actors, or to create a further demonstration effect or reach a tipping point that will lead to scale through the spontaneous crowding-in of a third wave of actors.

For example, to strengthen Kenya's last mile input distribution system, the [Kenya Markets Trust](#) (KMT) piloted a 'preferred stockist' model with a small number of distributors. Following the pilot, KMT worked with 8 other 'early adopter' distributors, before pivoting towards a franchisee model with over 30 rural agro-dealers. As a result, over 150,000 farmers recorded positive income changes.

Ultimately, the aim of the series of interventions is to resolve the constraint and achieve a systemic change. There is still debate on how precisely to define and measure whether systems change has been achieved. A widely used tool to measure and manage towards systemic change is the 'Adopt - Adapt - Expand - Respond' (AAER) framework', which is contained in [The Operational Guide for the Making Markets Work for the Poor Approach](#).

This tool can assist with intervention strategy design and monitoring from the pilot to the end of the project. The framework categorises partners' and other market actors' responses to an innovation facilitated by a project. The definitions of these categories, which are split into two phases – 'pilot' and 'crowding in', are outlined below.

Figure 7. The AAER framework for assessing progress towards systemic change



It is important to emphasize that these are not ‘steps’ in the systemic change process, as market actors may already be ‘expanding’ or ‘responding’ while project partners are ‘adapting’. They are, however, useful classifications for assessing the extent to which changes are systemic. Assessing progress in this way helps a project adjust to what is happening in the value chain and its market system and decide on what action is required, e.g. whether to plan activities to facilitate expansion.

It is also not always fully clear at what stage the systemic change process is. In order to aid reflection, teams can ask the questions set out in Box 38 in internal reviews or more formal evaluation processes.

Step 4 should end with a series of complementary interventions to embed systemic change

► **Box 38: Questions to guide a systems change assessment**

| STAGE | QUESTION |
|---------|---|
| Adopt | If the project left now, would partners return to their previous way of working? |
| Adapt | If the project left now, would partners build upon the changes they've adopted without the project? |
| Expand | If the project left now, would pro-poor outcomes depend on too few people, firms, or organisations? |
| Respond | If the project left now, would the system be supportive of the changes introduced (allowing them to be upheld, grow, and evolve)? |

Source: [Adopt-Adapt-Expand-Respond: a framework for managing and measuring systemic change processes](#)

Step 5: Measure, learn and adapt

The reality of facilitating change in market systems is more complex than simply implementing ‘blueprint’ interventions. Innovations may not be viable or deliver benefits to the target group; market actors may not have the expected capacity or incentives; and most importantly, these are ‘living’ systems that are difficult to fully understand and hard to predict in advance. As a result, projects must be open to the fact that the interventions they design may need to change. Operating in a dynamic business environment, it is important for projects to monitor and assess implementation on a continuous basis to observe progress and adapt interventions and partnerships as necessary.

For decent work, measuring both job quantity (Box 39) and job quality (Box 40) are critical as well as job inclusion effects, concerning who is able to access employment opportunities by gender, race, ethnicity or geography.

Measuring jobs in value chains is not about setting an absolute definition of what constitutes a good or ‘decent’ job, but often an exercise in relativity. Are

projects helping move the needle and improving wages or working conditions towards national labour laws or productive employment?

Here projects need to have a laser-sharp focus - only measuring improvements in the decent work deficits they intend to address, while ensuring that this doesn't come at the detriment of other deficits. Measuring every aspect of such a broad, multi-dimensional topic will likely lead to inaction. There may also be difficult trade-offs involved - is supporting informal jobs good for livelihoods? But what is important is to move away from the concept of a job in the abstract, to put it in the context of understanding and measuring what's important to the target group and their starting situation in the sector.

Value chain projects often use adaptive management techniques to integrate real-time learning and evaluation alongside implementation.³⁷ Each project may have

³⁷ See the ILO's paper “The Science in Adaptive Management” https://www.ilo.org/empent/Projects/the-lab/WCMS_537421/lang-en/index.htm

its own management approach, depending on the individual cultures and context, but will commonly follow this logic:

- ▶ Do – based on an initial analysis, carry out a set of activities (either to pilot or scale an innovation) that are based on ‘good enough’ assumptions of what might work
- ▶ Measure – collect evidence to see what results from these activities are, and to learn whether the initial assumptions hold true
- ▶ Learn – reflect on what is working, what is not, and what needs to be done differently
- ▶ Adjust – either continue activities, tweak them, or carry out a new set (so-called strategy ‘pivots’) that get projects close to the systemic change vision – and keep repeating the cycle

As such, projects place strong emphasis on measurement and data gathering, building their monitoring and evaluation (M&E) system in line with good practice set out in the [DCED Standard](#) (see Box 41). This structured, iterative process of decision-making to react and adapt to new opportunities or changes in markets helps improve effectiveness and achieve pro-poor outcomes (see Box 42). A core aim of adaptive management is to shorten the time required for real-world learning.

A project team therefore needs to regularly review and interrogate its results chains to see if they are still valid or to change them if necessary. This involves collecting, analysing and acting on gender sensitive and sex disaggregated data. Changes to results chains should be justified and recorded. This forces the team to be clear in its thinking, facilitates learning and leaves a documented trail of what happened that allows the team to reconsider decisions at a later stage, and justify changes to donors (see Box 43).

▶ Box 39: Measuring job creation

Value chain projects can support the creation of direct, indirect and induced jobs. Understanding and distinguishing between them is important to inform monitoring and evaluation activities, as the measurement methodologies differ for each one.

Often programmes only consider measuring and reporting on their direct job creation, yet their impacts in terms of indirect or induced job creation may be much greater. The following table outlines the definitions of these concepts.

| TYPE OF JOB | DEFINITION | EXAMPLE |
|-----------------|--|--|
| Direct | Jobs created by the service providers that a project directly works with. | A project works with an agricultural input supplier to develop and market smaller-sized input packets suitable for the needs of smallholder farmers. The supplier adds additional staff to conduct the marketing activities. |
| Indirect | Jobs created by firms’ suppliers, distributors and customers (supply chain effects). | The farmers who purchase packets from the input supplier increase their yields and thus use additional workers to harvest the crop (including both paid and unpaid family labour). Companies that supply or purchase from the input supplier hire additional people to meet its increased demand owing to increased sales. |
| Induced | Jobs generated by the consumer spending created by new direct and indirect jobs | The new employees of the farmers, agricultural input firms and distributors spend their salaries on new consumer goods and education and health services. The businesses that receive this spending in turn recycle this money in the economy. This new spending generates additional jobs throughout the economy. |

Jobs are normally measured as a full-time equivalent (FTE). FTE considers the number of days worked in a year of 240 working days (or the local number). For

example, if two part time jobs are supported or created of 120 days each per year, then that equals one FTE job.

Source: Adapted from DCED

► Box 40: Measuring job quality

While perhaps the most important metric for many external stakeholders (including donors and politicians), ‘jobs created’ does not offer real insight into the nuances of employment and relative impacts on the labour market – including the type of job, quality of job, or the distributional impacts of these jobs. As a metric to help understand real impact, just measuring jobs created and supported has been called a “blunt instrument”.³⁸

There are many different frameworks and approaches to measuring job quality.³⁹ The ILO’s decent work statistical indicators outline measures at the macro level of the wider economy and labour market system.⁴⁰ But projects usually measure at the level of an individual ‘job’ or at the firm-level. This can be complex as there are not only multiple aspects of jobs that should be taken into account, but different perspectives on what it means to have a ‘quality’ job.⁴¹

As a result, projects use a variety of methods. Some deploy a positive or negative screen (like excluding child labour or only including formal jobs).⁴² Others pick a single aspect of job quality (like increased incomes). These are not wrong, but tend not to reflect the multi-dimensional nature of job quality; and the fact that many aspects of job quality are inter-related and cannot be understood separately.⁴³

For value chain projects, the ILO suggests a practical approach that is based on the recognition that:

- First, that elements of job quality are mutually supportive (e.g. a construction worker needs to not be injured or permanently incapacitated in order to keep earning).
- Second, that it is neither feasible nor possible to ‘measure everything’. Resources should be focused

on understanding dimensions of job quality that a project is seeking to influence and improve.

[The short guide](#) on ‘measuring job quality in value chain development projects’ presents a framework for how to measure job quality at the project level, and a process to organise measurement activities in order to make sense of data.

Measuring job quality involves a five-step process:

- 1 *Focus*. Decide which dimensions of job quality are key
- 2 *Select*. Choose a set of metrics
- 3 *Set*. Develop a baseline score for every issue using the Job Quality Assessment Tool
- 4 *Plan*. Establish a data collection plan
- 5 *Assess*. Gather data according to the agreed reporting cycle and update scores

This guide is complemented by The ILO’s [SME Measurement Toolkit](#), which is a comprehensive resource for practitioners and projects helping decide what aspects of SME performance (productivity, working conditions, etc.) to measure, as well as how to measure them. It includes:

- More than 250 indicators including a set of actionable metrics drawn from existing sustainability standards, company codes of conduct and international development monitoring and evaluation frameworks
- Methods outlining different tools and data collection techniques
- Real-life examples of SME measurement in a developing country context

³⁸ EDFI: Impacts of private investment on sustainable development in developing countries: Session note on Jobs - direct and indirect impacts on job creation and decent work (2019)

³⁹ For an overview, see <https://www.cipd.co.uk/knowledge/work/job-quality-value-creation/measuring-job-quality-report>

⁴⁰ https://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_229374.pdf

⁴¹ This includes both subjective criteria like asking workers to value their own job quality, to setting objective criteria for what constitutes a quality job. It is therefore possible to have an objectively bad, subjectively good job.

⁴² For example, only counting jobs paying above a wage threshold (positive screen) or not counting any informal jobs (negative screen)

⁴³ For example, academic research has shown that increased wages can lead to decreased worker well-being if through anti-social hours (<https://onlinelibrary.wiley.com/doi/full/10.1111/irj.12241>).

► Box 41: The DCED Standard for Results Measurement

The Donor Committee for Enterprise Development (DCED) Standard specifies eight elements which provide the basis for a successful monitoring framework that allows programmes to learn and adapt based on the data they collect. These elements also help programmes measure results, allowing change to be attributed to interventions with a reasonable degree of rigour to give greater credibility to self-reported results.

The ILO is a member of the DCED and promotes the use of the Standard in all value chain projects. The [DCED](#) maintains a comprehensive website which provides detailed guidelines for each of the seven elements.

1. Articulating the results chain
2. Defining indicators of change
3. Estimating attributable changes
4. Capturing wider changes in the system or market
5. Tracking costs and impact
6. Reporting costs and results
7. Managing the system for results measurement



► Box 42: Adaptive Management in Action

With an initial three-year implementation timeframe, Yapasa – the ILO-FAO agri-business project in Zambia that we met in Step 1 - needed to get moving quickly. It began by targeting the production side in the aquaculture and soybean sectors as the project team believed that most jobs could be created and improved in this part of the value chain. For soybeans, farmers have just one crop cycle per year meaning that with Yapasa's initial implementation timeframe, it had just three crop seasons to trial, test and scale ideas on the production side.

With implementation starting in September and planting season starting just two months later, Yapasa had to put together a partnership quickly. The project swiftly put together partnerships to test an outgrower model – a common intervention in market systems development projects, which creates a link between smallholder farmers and a trader. On paper the model looked good – but in practice it fell apart: transaction and coordination costs for traders were simply too high.

Yapasa reflected on this failure and put the lessons to good use in re-tooling the outgrower model for the next year. An input supplier, that was eager to expand its distribution market, came on board to offer inputs on credit and provided training and technical support to the farmers. This reduced the transaction costs for traders, but the model fell apart again: A catastrophic drought killed off the majority of the crop and of the 561 participating farmers, only 8% could pay back the cost of the inputs supplied.

Two years into implementation, Yapasa went back to the drawing board to recalibrate the intervention strategy. Instead of looking at inputs only in the context of the soybean value chain – where economies of scale mean any new innovation has to be highly profitable to stand a change of success – Yapasa re-focused on the inputs sector as a whole. This led to a new model of last mile distribution, where the input providers worked with community-level agro dealers. This – eventually – led to Yapasa creating and improving over 2,000 jobs for rural youth in Zambia, and improved the performance of 8,000 youth-led rural enterprises.

Read more: [Fail, recalibrate, adapt, achieve: how Yapasa used the market systems approach to create opportunities for Zambia's rural youth.](#)

► Box 43: Results chains: More than a tool

A cornerstone of the DCED Standard and of monitoring is the 'results chain'. These chains – which show how activities are expected to lead to outputs, outcomes, and eventually development impact – help in both planning and measuring the effects of interventions.

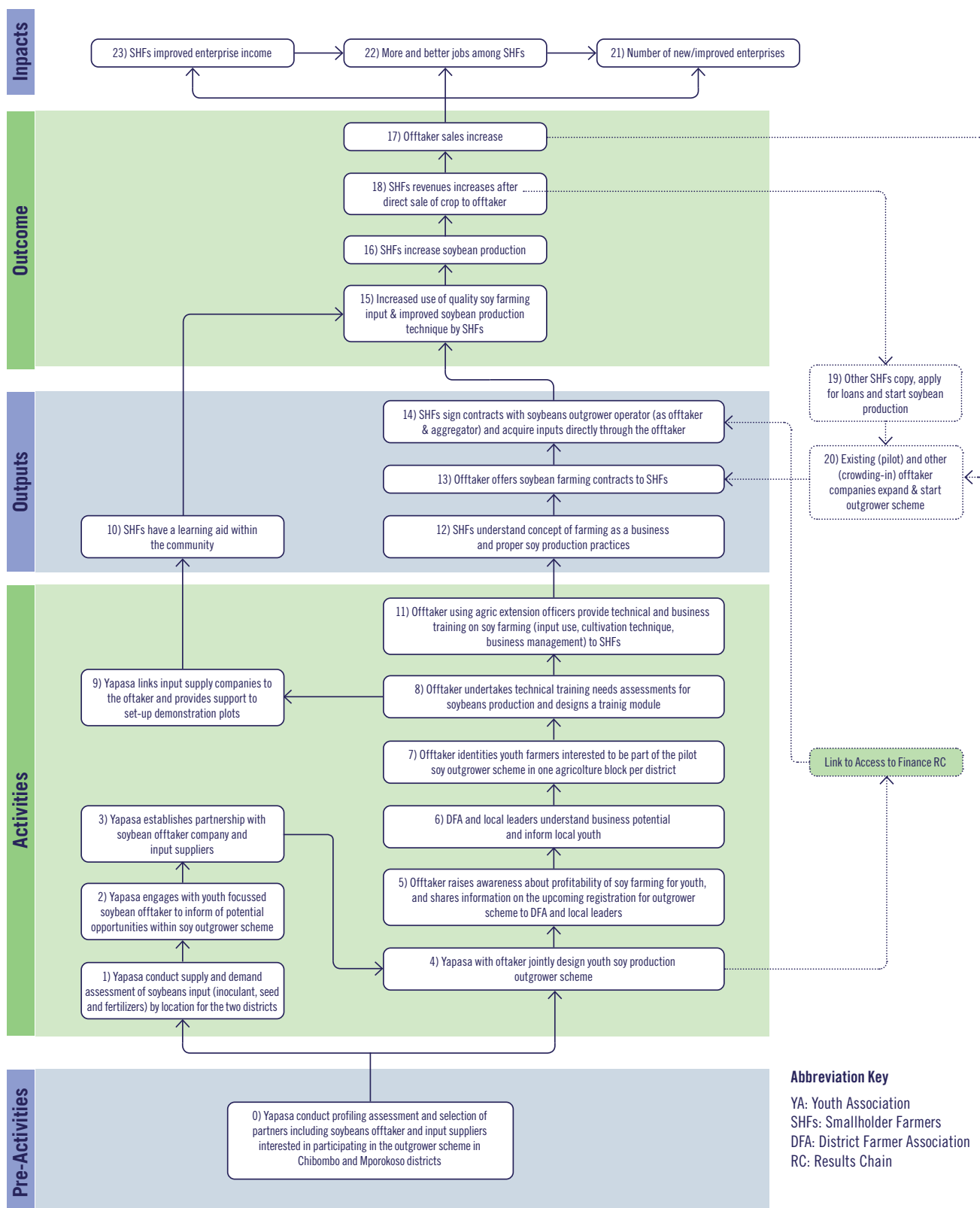
The real-world response to any new 'innovation' being supported by a project will be uncertain – dependent on the specifics of the context rather than a matter of predictable, historically-informed 'best practice'. Projects cannot simply be 'evidence followers': assuming that just because activity X worked in situation Y, that it will work in situation Z.

Projects use results chains to make an initial hypothesis about how change might happen, based

on predictions and assumptions. These are first iterations rather than set in stone. An example of a results chains from the Yapasa programme can be found below.

As interventions progress, data is collected for each results chain 'box' using established data collection methodologies (see the sample data collection plan, below). This allows projects to see whether change is happening as expected, and to reflect on and critically review their hypothesis. Data is digested in regular meetings and reviews to decide whether the intervention tactics (ways of supporting partners) or strategy (choice of partners) need to change.

An example of a results chain used by the Yapasa Programme



Every results chain box... has an indicator... and methods to measure the indicator

| | | | MEASURED/VALIDATED (HOW) | | | BASELINE DATA | |
|-----|---|--|-----------------------------|---|----------------------|----------------|-----------|
| Box | Results chain description | Indicator (s) | Tools | Notes/Sampling | Collected by who | Collected when | Completed |
| 8 | Offtaker undertakes technical training needs assessments for soybeans production and designs a training module | 1. Quality training module designed | Activity Check/ Observation | Module reviewed and discussed with offtaker | Intervention Manager | Nov-14 | Yes |
| 9 | Yapasa links supply companies to the offtaker and provides support to set-up of quality demonstration plots | 1. Number of quality demonstration plots | Observation | Observation of training for quality, Demo record sheets from offtaker for quantuty operator | Intervention Manager | Nov-14 | Yes |
| 10 | SHFs have a learning aid the community | 1. Number of farmers that have visited demo plots | Activity check | Host lead farmer will keep a record of all witnessed visitations | Intervention Manager | Nov-14 | Yes |
| | | 2. Number of quality training sessions at the demo plots | Observation Activity/check | Demonstration site record sheet | Intervention Manager | Nov-14 | Yes |
| 11 | Offtaker using agric extension officers provide technical and business training on soy farming (input use, cultivation techniques, business management) to SHFs | 1. Content of training determined quality | Observation | Training observed from quality | Intervention Manager | Nov-14 | Yes |
| | | 2. Number of farmers participating | Activity/check | Training record validated by observation | Intervention Manager | Nov-14 | Yes |
| 12 | SHFs understand concept of farming as a business and proper soy production practices | 1. Change in number of farmers with knowledge in good production practices | Informal Rapid Survey | Quick 5 question pre-and post trainig survey to 20 SHFs | Intervention Manager | Nov-14 | Yes |
| 13 | Offtaker offers soybean farming contractss to SHFs | 1. Feedback on contractual process | FGD | 6-8 SHFs | Intervention Manager | Nov-14 | Yes |
| 14 | SHFs sign contracts with soybeans outgrower operator (as offtaker & aggregator) and acquire inputs directly through the offtaker | 1. Number of contracts signed | Activity Check | Contract record document | Intervention Manager | Nov-14 | Yes |
| 15 | Increased use of quality soy farming inputs & improved soybean production technique by SHFs | 1. Change in number of SHFs using quality soybean inputs | Formal survey | Stratified random sample using 95% confidence and 5% error, Treatment: 44 Chibombo, 42 Mporokoso, Control: 44 Kabwe, 42 Luwingu | MRM team | Nov-14 | Yes |
| | | 2. Reasons for change in use of quality inputs | FGD | 2FGDs of 6-8 parteci-pants | Intervention Manager | Nov-14 | Yes |

4.2 Managing the process

A project team should include the following positions and areas of expertise:

- **Project management:** Ensures overall coherence of the project; provides technical inputs and assists in developing relations with high-level market actors.
- **Monitoring and Results Measurement (MRM)**⁴⁴: Requires the intervention manager and the MEL manager to work together to monitor and assess progress as well as plan and perform substantial data collection. The MRM function should include a knowledge sharing system/strategy to learn lessons and share those lessons with project team members and stakeholders.
- **Gender specialisation with private sector development expertise:** Ensures that the gender implications of an intervention are taken into account in line with project goals. This should be a mandate for each of the project team members, rather than being outsourced or assigned to one person of the team.
- **Environmental specialisation with private sector development expertise:** Ensures that the dynamics between market development and environmental sustainability are appropriately mapped, that the existing environmental and economic policies in the

country that impact on the natural environment are well understood, and that environmental sustainability is taken into account throughout the project cycle.

- **Other team members:** Provide continuous intervention review, function as a sounding board, and explore synergies. In addition, it is useful to assign one team member to stand in for the intervention manager as necessary.

The responsibility for individual interventions is often assigned to one 'intervention manager'. This management structure is effective in providing clear definition of team responsibilities. The remainder of the project team remains heavily involved so that they acquire in-depth knowledge of the value chain/intervention and develop strong relationships with partners and other market actors.

Learning and flexibility are key to successful implementation. Project documents or plans need to be formulated to promote these characteristics. Funding or implementing agencies that require detailed logframes with specific outputs such as '100 people trained on...' will need convincing that this is not suitable for a systems approach. Box 45 below sets out other common challenges facing a systems approach to intervening in value chains.

⁴⁴ Also known as Monitoring and Evaluation (M&E) or Monitoring, Evaluation and Learning (MEL).

► Box 44: The 'political economy' of project implementation

Financial delivery rates

Financial delivery rates and pressure to spend are the bane of projects aiming at systemic, lasting change. This can be mitigated by sensitising the donor beforehand about the approach taken, and by frequent communication about progress. Also, having a large budget is not necessarily useful. 'Less is more' is often heard in value chain development projects. Those with few funds are forced to focus on 'soft' facilitation and may achieve more in the long run. Under pressure to spend, projects may be tempted to finance interventions that do not contribute to systemic change and may cause market distortion.

Pressure to demonstrate results

The pressure to demonstrate quick and visible results may result in projects 'buying impact' by funding interventions to generate 'quick wins' that they know

are not sustainable. This is not value chain development and incurs a risk of market distortion. A better approach is to communicate frequently and honestly to keep donor and other stakeholders' expectations realistic and their focus on the need for systemic change.

Managing risk

No project likes failure, or to admit failure, but working with market actors and facilitating market system change for the benefit of target groups in value chains requires risk taking and an entrepreneurial mind-set. This does not mean taking unreasonable risk, but some level of risk must be accepted. Again, the level of risk can be substantially reduced through good research, piloting on a small scale, working with more than one partner, and having a portfolio of several interventions.

For more, see the BEAM Exchange's [MSD Procurement Papers](#)

Based on experience, good measurement in line with the DCED Standard ideally requires a dedicated staff position, either national or international depending on the size of the project, to co-ordinate activities. This person is not there to do all the monitoring – but to support the rest of the project staff in carrying out monitoring activities. An expenditure on MEL of 5 to 10 % of the total project cost is common and considered acceptable.

Projects may not have an adequate budget allocated, and for smaller projects, investing in MRM that meets the DCED Standard is a large investment. The return on this investment is high, though, in terms of more sustainable and better impact. Once the system has been set up, costs can be limited by for instance:

- Reducing the scope of research (e.g. smaller samples)
- More use of qualitative methods
- Avoiding costly methodologies of which the usefulness for improving interventions is doubtful (e.g. quasi-experimental approaches, Randomised Control Trials).

It is important to note that measurement is not the goal but a means to achieving the project goal (of sustainable decent work outcomes). If the team feels they are spending an excessive amount of time on indicators, measurement, and research methodologies, you have to review your MRM system and/or practice.



Living with logframes

Logframes usually include quantitative targets for outreach and impact at the beneficiary level and other “deliverables”. While projects are meant to achieve such targets through facilitating systemic change, sometimes in practice the focus turns to ‘hitting’ numbers for the sake of upward accountability. These risks create inappropriate incentives for the project managers and implementers to directly deliver, and bypass the market systems change that is crucial for sustainability. Ways to reduce this risk include:

- Working with donors who understand the primacy of systemic change, or fostering such understanding.
- Negotiating with donors on the basis of low and flexible impact targets. Some donors agree to include “projections” (not targets) made after an initial period of implementation. Instead, fix clear and agreed upon process targets.
- Keeping projections and the number of indicators low, whatever the temptation to impress the donor, and do not call them targets. Language matters.
- Not projecting and counting numbers of “beneficiaries”. Instead count how many of the target group are accessing new products/services through systemic change, whether with project partners or as a result of market take-up.
- Making sure results chains are not included in formal bid/project documents: this gives the impression they are fixed plans, not flexible sets of hypotheses about how change might happen.
- Avoiding overly detailed activity plans or elaborate budgeting as far as possible: keep options open.
- Keeping the donor informed of changes in the market system and the need to adapt; building in structured semi/annual review processes to revisit and update the project document and Logframe as necessary.



Core competencies for implementation and measurement

Putting together a project team with a wide array of complementary skillsets is a critical success factor in market systems development. More than just aptitude – the ability, skills and experience of team members – what matters for staff recruitment is a positive attitude: a willingness to do ‘development differently’, learn and adapt, be entrepreneurial and experiment with innovative ways of bringing about positive social change. For successful implementation, high-performing project teams exhibit the following knowledge, skills and attitudes:

Analysis and insight:

- Can understand market systems and their role in poverty reduction from a systems perspective
- Perform gender analysis and share commitment to gender equality
- Able to perform business and financial analysis on an organisation
- Do background research, interrogate data and summarise findings cogently
- Actively make and challenge assumptions
- Generate creative ideas and predict possible outcomes

Intervention delivery:

- Make decisions despite limited or uncertain information
- Apply systems principles to develop interventions that local partners can independently lead and own
- Manage a portfolio of interventions that combine to stimulate sustained system change
- Use field observations and data to change or develop new interventions

Teamwork and interactions:

- Build relationships and manage conflict with people from diverse backgrounds
- Facilitate goal-driven discussions, workshops and meetings
- Deliver effective reports and presentations that cater to specific audiences
- Seek feedback to self-improve, collaborate, take risks, acknowledge mistakes and add value to a team

The BEAM Exchange includes detailed guidance – including case studies, teaching materials and example interview techniques – for each of the above competencies.



Further reading

Guidance:

- Chapters 3 and 4 of [Value Chain Development for Decent Work](#)
- [“Market systems facilitation, how good are you?” 2017](#)
- [The seven principles for facilitation \(Engineers Without Borders\)](#)
- [Market Facilitation Game: An online roleplay](#)
- [Measuring Productive Employment: A ‘how to’ note](#)
- [Tactics of facilitation for Sustainable Market Systems Development \(Pollen Group\)](#)

Examples:

- [Snapshots of market systems interventions \(BEAM Exchange\)](#)
- [Business Models for Decent Work](#)
- [Doing more business and less aid: The journey of a market system development project in Afghanistan](#)
- [Can development results last a decade? A sustainability assessment of an ILO enterprise development project in Sri Lanka](#)
- [Crafting Kuza: Towards a systemic approach to job creation for youth in Mombasa](#)
- [Formally Challenged: Tackling Informality in Market System Development projects](#)

Conclusion: From words to action

Decent work can sometimes seem like an overwhelming challenge.

Helping people like Abdullah – who we first ‘met’ in the prologue – make his work more decent or creating new decent job opportunities is not an easy task. A systems approach offers both a set of principles and a framework to help guide sustainable action. In this guide, we have learnt that a systems approach means:

- ▶ Understanding context so interventions are led by an analysis of needs and opportunities.
- ▶ Building local ownership so innovations play on both the incentive and capacity of local actors.
- ▶ Lasting change comes from addressing the root causes of an issue – not just treating the symptoms.

Do all of this and we can avoid becoming ‘another PlayPump’.

Over the past six years, the ILO SME Unit – and the Lab project – helped projects around the world move from paper to practice. This resulted in a considerable body of knowledge on how to use a systems approach to bring about decent work outcomes: From working on rice in Cambodia, dairy in Afghanistan, to understanding the services sector like construction in Zambia or tourism in Albania to manufacturing of furniture in Peru or auto-parts in Thailand.

On this journey, we have learnt three key things on how to apply common sense and systems thinking in value chain development

1 Start with a clear strategy that prioritises a limited set of impacts

First, it is important to have a clear target group focus. This shapes the first part of the MSD cycle, which involves selecting the sectors the project will work in based on criteria of relevance, feasibility and opportunity.

It is likely that the target groups will face many decent work deficits. Recognising many of these will be inter-connected, projects will need to prioritise which to address first. Addressing everything is not an option. This choice influences the sector selection process and the fundamental strategic decision that projects need to make – do I support incremental improvements to the jobs people are currently doing (Abdullah on his farm)

or do I try and help support the creation of new opportunities that may lead to radical improvements in future jobs (e.g. in more modern sectors like services, which may create opportunities for Abdullah or his family – but only in the longer-term)?

2 Look below the surface to find the reasons for the decent work deficits

Second, during market systems analysis, the underlying reasons driving decent work deficits may not be immediately obvious. The key is to spend time investigating ‘why’ before rushing in with a ‘solution’. For decent work, the challenge is often not one of unemployment but underemployment. Analysis needs to focus not only on the drivers of labour market exclusion, but to understand and address the reasons why people are being adversely included. Ask “why” as often as needed to understand root causes and assess incentives and capabilities of those that can drive change.

3 Be adaptive and measure the meaningful

Third, the reality of facilitating change in market systems is more complex than simply implementing ‘blue-print’ interventions.

Projects need to maintain a laser-sharp focus – only measuring improvements in the decent work deficits they intend to address, while ensuring that this does not come at the detriment of other aspects of decent work. What is important is to move away from the concept of a job in the abstract, to understanding what is important to people in poverty, the self-employed and MSMEs in the local and country context. Measure what matters to the target group and their starting situation and how this is relevant to putting them on a pathway towards decent work.

Although we have worked to codify our experience and practical lessons into guidance in this Manual, there is much space to advance knowledge and efficacy in this area. We hope that this is the start of a collaborative journey – If you are interested in advancing knowledge or improving how your project tackles decent work challenges, we invite you to reach out to us (thelab@ilo.org) to see if we can find a way to work together.

Glossary

This glossary summarises some of the key terms used in value chain and market systems development. For a more comprehensive set of terms and concepts, see sources of the below definitions in the BEAM Exchange, the Operational Guide to the Making Markets Work for the Poor Approach and the ILO glossary of key terms.

Casual Work: Hiring workers on a very short term or occasional & intermittent basis in return for a set wage for an agreed period (day, week etc.) or task.

Constraint: under-performing functions or rules that both shape value chain performance and inhibit more inclusive outcomes for target groups (e.g. a lack of access to inputs is constraining vegetable farmers from improving their productivity).

Facilitation: the attempt by development actors to catalyse change in the market system while not assuming any long-term market function themselves. Their intervention role is temporary and catalytic.

Green jobs: Jobs that produce goods, provide services or make production processes more energy and resource efficient and less polluting. Green jobs exist and can be created in traditional sectors, such as manufacturing and construction or in green sectors, such as renewable energy and energy efficiency.

Green sectors: Sectors that produce environmental goods and services, which can be broadly defined as goods and services helping measure, prevent, limit, minimise or correct environmental damage. This includes sectors such as renewable energy, water and waste management, environmental consulting, cleaner technologies or carbon capture and storage.

Informal employment: is where a person is employed in an informal sector enterprise (unregistered or unincorporated enterprises).

Informal entrepreneurs and workers share one important characteristic: they are not recognized or protected under existing legal and regulatory frameworks.

Innovation: new or improved behaviour, practice or technique adopted by a market player as a result of programme intervention that confers a benefit to the poor. These can be goods or services and/or new roles that support a different way of working.

Intervention: A defined package of temporary activities through which Facilitators seek to effect change.

Job: A set of tasks and duties carried out, or meant to be carried out, by one person for a particular employer, including self-employments.

Market actor: Any organisation or individual in the private or public sector, civil society/community groups, social enterprises, representative organisations, academic bodies, etc.

Market: A set of arrangements by which buyers and sellers are in contact to exchange goods or services.

Precarious work: Usually defined by uncertainty as to the duration of employment, multiple possible employers or a disguised or ambiguous employment relationship, a lack of access to social protection and benefits usually associated with employment, low pay, and substantial legal and practical obstacles to joining a trade union and bargaining collectively.

Skill: Ability to carry out a manual or mental activity, acquired through learning and practice. The term “skills” is used as an overarching term for the knowledge, competence and experience needed to perform a specific task or job.

Supporting functions: a range of context- and sector-specific functions that inform, support and shape the quality of the core function and its ability to develop, learn and grow.

Supporting rules: formal (laws, regulations and standards) and informal (values, relationships and social norms) controls that strongly define incentives and behaviour of market players in market systems.

Supporting system: market systems whose performance has a direct influence on how the market players in the principal market system behave and perform. Supporting market systems have their own core function, supporting functions and rules.

Sustainability (the market development definition): The market capability to ensure that relevant, differentiated goods and services continue to be offered and consumed by the poor beyond the period of an intervention.

Sustainability: the continuation of benefits from a development intervention after major development assistance has been completed.

Systemic constraint: under-performing functions or rules that shape how a supporting system is able to function (e.g. unpredictable import levies are a systematic constraint to improving the availability of high-quality hybrid vegetable seeds in the market).

Tools: Relatively standardised methodologies for market analysis or intervention (e.g. value chain analysis and development, small business association development, SIYB, etc.).

Underemployment: occurs when a person does not work full time or takes a job that does not reflect their actual training and financial needs.

Unemployment: refers to the share of the labour force that is without work but available for and seeking employment.

Value chain: describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production and delivery to final consumers, and final disposal after use.

Vulnerable employment: Self-employed workers and contributing family workers have a lower likelihood of having formal work arrangements, and are therefore more likely to lack benefits associated with decent employment, such as adequate social security and a voice at work. The two statuses are therefore put together to create a classification of “vulnerable employment”.

Working poverty: occurs when employed persons are living in households in which per-capita income/expenditure is below the poverty line.



International
Labour
Organization

International Labour Organization
Route des Morillons 4
1211 Geneva 22
Switzerland